WHAT DOES PROGRESS SOUND LIKE?

MITEL CORPORATION

1997 AR

MITEL

CORPORATE PROFILE

Mitel Corporation designs, manufactures and markets systems, sub-systems and microelectronic components for sale to world markets in the telephony, computer telephony integration (CTI) and communications industries. The Company's products include voice communications systems; networked voice and data systems and CTI applications; client/server telecom products; public switching systems; network enhancement and access products; custom silicon wafers; integrated and hybrid circuits; and, optoelectronic devices. Mitel's leadership strategy is centered on advancing people-to-people communications in an open, distributed and standards-based environment.

IT'S THE SOUND OF VOICE OVER THE LAN.

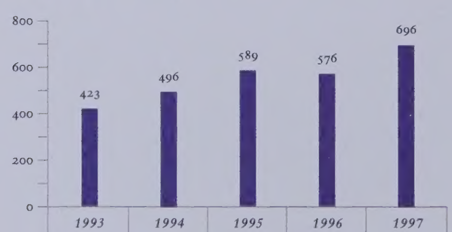
No doubt about it — voice will be the next major high bandwidth application on the LAN. How do companies get there from here? Smoothly. With Mitel.

($ millions Cdn, EXCEPT earnings per share amounts)	1997	1996	1995	1994	1993
EARNINGS					
Revenue	$ 696	$ 576	$ 589	$ 496	$ 423
Net income	38	51	32	21	3
Earnings per share	.32	.45	.27	.16	(.01)
Research & development expenses	57	43	42	34	35
CASH FLOW					
Cash flow from operations before working capital changes	$ 73	$ 71	$ 47	$ 41	$ 25
Capital expenditures	74	35	17	16	12
BALANCE SHEET					
Cash & short-term investments	$ 143	$ 137	$ 142	$ 101	$ 83
Working capital	206	210	208	174	139
Common shareholders' equity	340	303	263	232	204
Number of shares outstanding *(millions)*	107.4	106.1	105.8	105.5	104.5

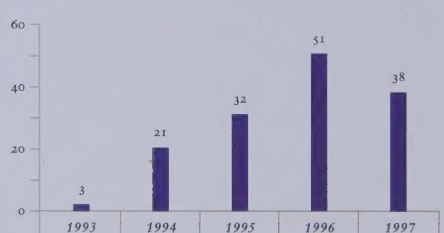
LISTINGS

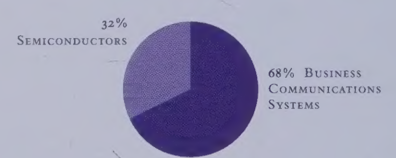
The Toronto Stock Exchange — The Montreal Exchange — New York Stock Exchange — The Stock Exchange, London

Revenue ($ millions Cdn)

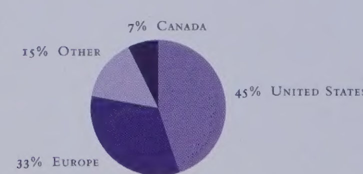


Net Income ($ millions Cdn)

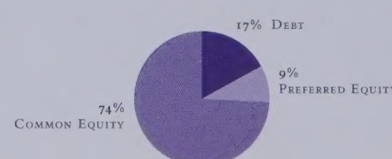




Revenue by product group



Revenue based on customers' geographical location



Capitalization

From the Chairman's Perspective

ACHIEVEMENTS In fiscal year 1997, revenues increased by 21 percent to $695.5 million driven mainly by continued strong growth in semiconductors. The volume in business communications systems increased by 10 percent in terms of total lines shipped. However, competitive pressures and a necessity to preserve market share led to a deterioration of prices.

While Mitel's computer telephony integration (CTI) products are gaining acceptance, this market is not growing as rapidly as expected. Also, revenues from RADICALL® continued to fall short of expectations; as a consequence, we will devote no further funding to development of RADICALL, while continuing to support the product for existing customers. The necessity to adapt to prevailing market conditions led to a reorganization of the Business Communications Systems (BCS) operations resulting in an $8.0 million restructuring charge and other write-offs amounting to $5.0 million. The total charge of $13.0 million, or $ 0.12 per share, was included in the fourth quarter resulting in earnings per share of $ 0.32 per share for the year.

Management believes the problems experienced by BCS are temporary. I am optimistic about the future prospects of the BCS group, particularly since management has been strengthened, the operations have been reorganized, and new products are being aggressively developed.

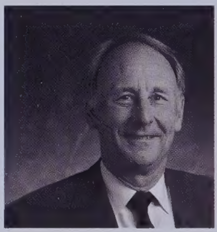
In fiscal year 1997, Mitel continued to develop and exploit its expertise in voice communications systems, marked by the successful launch of the NeVaDa™, Networked Voice and Data system. NeVaDa delivers data, voice and video traffic over a single, converged network with significant improvements in economy and efficiency as compared to separate voice and data networks. NeVaDa won Voice Integration Product of the Year at Networks '96 in the United Kingdom.

In other technology developments, the SX-200® ML voice system for small business and branch office applications was introduced. At twenty to eighty lines, the system meets the telecommunications needs of businesses with fewer than one hundred employees, currently the fastest-growing market segment in the United States and other countries. The Company also prepared to market a new category of computer peripheral that delivers true desktop CTI, the MITEL® *Personal Assistant*, aimed at the low end of the small office/home office marketplace. In addition, efforts to develop sales channels to accelerate the take-up of convergence products were expanded during the fiscal year.

Mitel Semiconductor continued its trend of significant, profitable growth, posting an eighty-three percent year-over-year increase in revenue. More than twenty new semiconductor products were introduced worldwide. Of note, the division completed the smooth integration of the recently acquired plant in Sweden. The facility is now manufacturing products for Mitel's worldwide markets leading to a significant increase in capacity utilization. The expansion program in Bromont is continuing on schedule and Mitel Semiconductor is poised for continued aggressive growth.

With the guidance of the Board and the support of senior management, Mitel has addressed some tough challenges. I am optimistic that the actions which were taken during the year will re-establish Mitel's profitable growth and I have every confidence that management's plan and commitment to moving the Company forward in fiscal year 1998 will meet with success.

As always, I would like to thank the Board for its advice and counsel, our employees around the world for their commitment and hard work, and our distributors and customers for their support.



DR. HENRY SIMON

CHAIRMAN OF THE BOARD

From the President's Perspective

The Company's sales performance in Fiscal 1997 was strong with record revenue at $695.5 million, up 21 percent from the previous year. Semiconductor revenue was the bright spot growing by 83 percent to $221.0 million, which included the results of our Swedish operation acquired at the end of last year. Net income, however, decreased to $38.0 million, or $0.32 per share, from last year's net income of $51.0 million, or $0.45 per share. Competitive pressures and rising operating costs in the Business Communications Systems (BCS) group accounted for much of the earnings decline. To improve the Company's prospects for growth, we took action to reduce BCS and corporate expenses and to reorganize the BCS operating group. Restructuring charges and write-offs amounting to $13.0 million, taken in the fourth quarter, resulted from these actions.

Performance in the BCS group was adversely affected by slower than expected uptake of CTI products. We were overly optimistic with regard to how quickly the market for converging architecture would mature. Like any relatively new technology, CTI's progress depends on how quickly distribution channels can assimilate and begin to support the new solutions over the familiar; the rate at which open standards are established; and the availability of third party applications in quantity. We are working in each of these areas to increase the market's knowledge of the benefits that CTI and converged products bring to an enterprise. In the case of convergence in particular, the marketplace must also come to perceive networks that formerly carried data exclusively, as now being robust and reliable enough to handle two-way, real-time voice traffic.

During fiscal year 1997, competition in the BCS market intensified with the result that the Company took pricing actions to maintain its sales growth. In addition, RADICALL market penetration has not met expectations. Therefore, although we will continue to support the product, no further development money will be allocated for it.

To pursue both short and long term opportunities the Company took a number of actions:

→ We launched the new SX-200 ML, a 20-80 line voice system aimed at the fast-growing small business market in North America;

→ We introduced new computer peripherals including the MITEL *Personal Assistant*;

→ We launched a new digital chip that eliminates the echoes that degrade voice communications and another new chip that maps real-time, isochronous communications onto ATM networks.

SUPPORTING DISTRIBUTORS, DEVELOPERS KEY TO SUCCESS During the fiscal year, we continued to work with and support our indirect distributors and signed an agreement with Ingram Micro Inc., the world's largest wholesale distributor of technology products and services.

We acquired the U.K. business and assets of Global Village Communication (U.K.) Limited, a leading provider of ISDN network access solutions in the U.K. with a product line complementary to Mitel's.

In order to ensure that users of Mitel systems have access to best-in-class, voice-enhanced productivity applications we promoted our open, standards-based development environments that allow developers to adapt applications to our platforms.

We introduced the MediaPath™ voice operating system (VOS) as a developer's environment that simplifies the work of third-party software developers who are creating high-value applications such as help desks, integrated messaging and call centers.

GROWING THE CALL CENTER BUSINESS Mitel broadened its offering of call center software to provide a complete range of systems from those serving small workgroup centers to systems scalable up to mission critical, global networks, the latter through teaming with Rockwell Switching Systems division.

Adding to the power and versatility of Mitel Call Centers, PhoneWare® DigitCollector software was introduced during the year for use on the Mitel SX-200 Simon Server. The intelligence of the software and its account number identification system signifcantly reduces end-user costs by eliminating the need for expensive telephone company services. It also increases "screen pop" accuracy (the search and retrieval of customer information from computer databases) and provides a dramatic increase in customer service capabilities.

The Company welcomed Digital Equipment Corporation's announcement of the Integrated Telecommunications AlphaServer® (ITA). ITA is the result of a joint development agreement between Digital and Mitel, combining computing and messaging with the Mitel voice operating system in a single, open platform.

MAJOR DEMAND FOR SILICON SOLUTIONS FUELS EXPANSION, MODERNIZATION To satisfy increasing demand for its components, Mitel Semiconductor initiated an expansion and modernization program at its

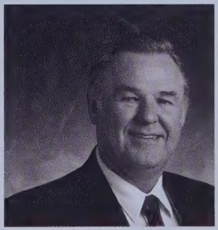
microchip foundry in Bromont, Quebec in fiscal year 1996. Production capacity is being increased through the introduction of six inch wafers. A move to 0.8 micron capability will permit fabrication of the more complex chips required in sophisticated, demanding applications such as adding real-time capability to data networks.

During Fiscal 1997, the most significant part of the expansion program's Phase I was completed. Phase II, enabling production of 0.8 micron wafers, is scheduled for completion in fiscal year 1998. Mitel Semiconductor AB in Järfälla, Sweden has been upgraded to improve wafer quality and yields. A program to double wafer output in this facility has begun.

STEPPING STONES TO SUCCESS IN 1998 For fiscal year 1998 we see four critical success factors. We must take advantage of voice opportunities in our core markets; continue to develop competencies within existing as well as new distribution channels to market our converged products; deliver quality products, on time; and take voice competency into the IT industry from a joint BCS/Semiconductor perspective.

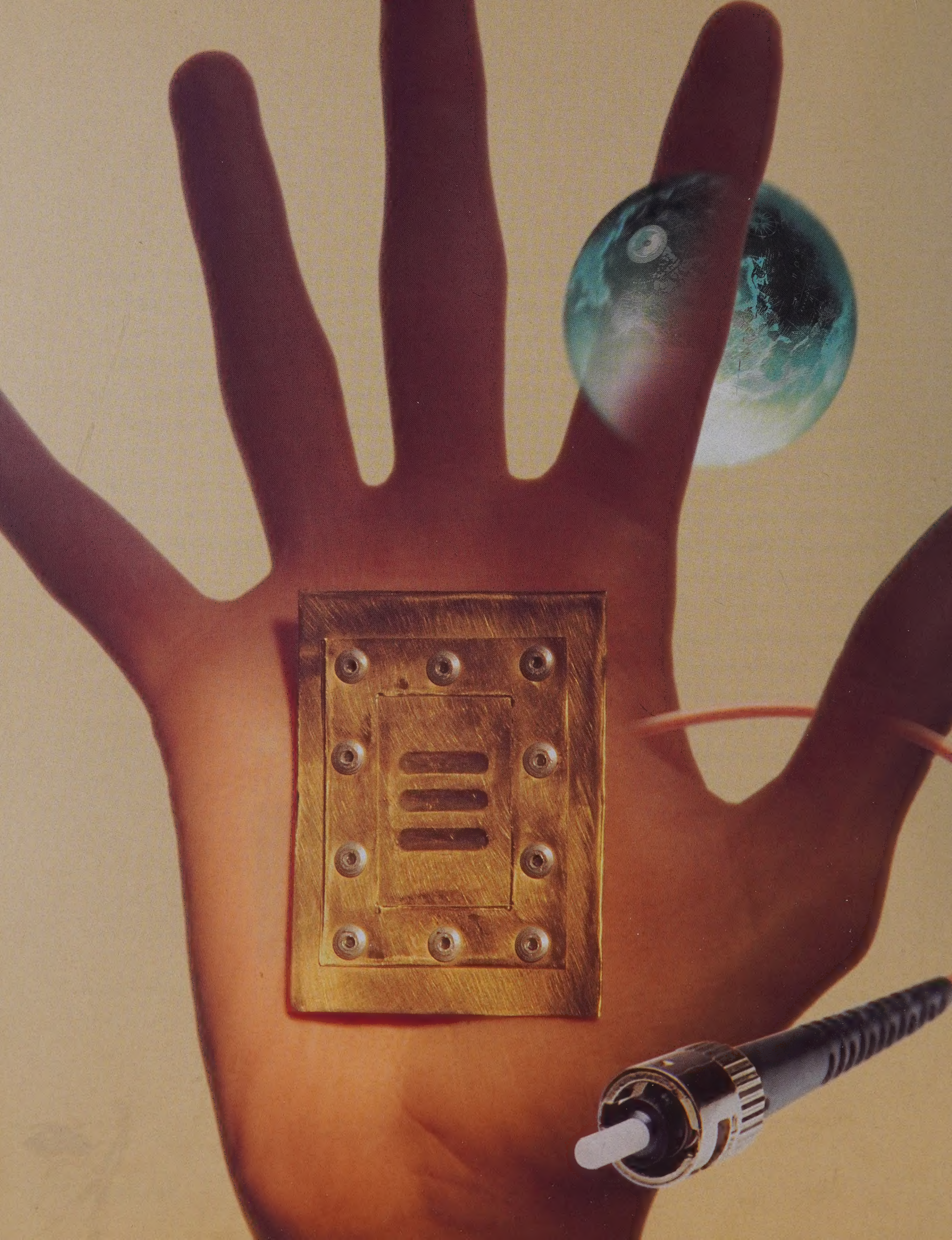
We must also respond quickly to our customers' needs and requirements. An especially critical challenge will be that of striking an appropriate balance between investment in existing markets and using our strength in voice technology to profitably explore new markets.

Mitel faces its challenges as a strong, financially sound company with excellent prospects. I am confident that our dedicated, energetic, creative employees are equal to the task of extending our lead on the path to convergence, a trail blazed by our voice expertise.



DR. JOHN B. MILLARD

PRESIDENT & CHIEF EXECUTIVE OFFICER

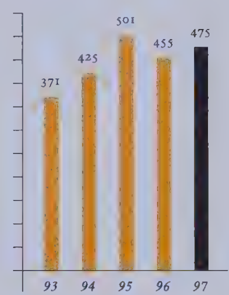


IT'S THE CALL FOR BETTER VOICE SYSTEMS.

Whether it's voice systems for your branch offices, LAN-based systems to turn a sprawling campus into a tight-knit communications community, or global networks to span an ocean or two, we have the right solution.

Building on expertise in voice technologies, the Company's Business Communications Systems group offers voice systems; networked voice and data systems; CTI products and applications; client/server telecom products; network enhancement and access products and public switching equipment.

($ millions Cdn)



BCS Revenue

Traditional PBX Sales Increase

In the Company's largest market, the United States, Mitel was the number one supplier of new PBX lines shipped in the two to forty lines range, with a 27.9% share. In the forty-one to one hundred line size, Mitel was the number two supplier with a 23.4% share according to figures provided by Phillips Info Tech. Sales of all Mitel voice systems increased during the year with the most growth occurring at the one hundred to four hundred line size.

A Range of Flexible Voice Systems

Our digital systems include the SX-50®, SX-200 DIGITAL, SX-200 LIGHT, SX-200 ML, and the SX-2000® LIGHT family. These voice systems can be configured to suit customer requirements with optional enhancements to provide users with automatic call distribution (ACD) and automatic attendant functionality, message center and hotel/motel applications, and with powerful private network protocols in both digital and analog technology.

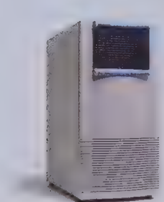
Using network cluster technology, Mitel's SX-2000 LIGHT systems can be transparently linked to create a centrally managed system scalable to serve from a single building or campus to any number of geographically dispersed locations.

A Mitel Network Cluster provides seamless communications between Northern Arizona Healthcare's major facilities in Flagstaff and in Sedona, Arizona, thirty miles distant. "Now we have five digit extension numbers for calling between all of our locations — no long distance charges apply," says Don Richardson, the facility's Director of Telecommunications.

"With MITEL OPS Manager, moves and changes can be done in a matter of minutes. Reliability is a big factor in the health care business and being able to keep the network up and running without a lot of technical intervention is a big plus."

Don Richardson

DIRECTOR OF TELECOMMUNICATIONS, NORTHERN ARIZONA HEALTHCARE



SX-200 ML

The Critical Human/Machine Interface

The success of Mitel voice systems is due in part to a deeply held conviction that people are more interested in their work than in mastering a telephony variant of "rocket science". The belief led to development of SUPERSET® telephones. The 400 series, employs a combination of softkeys and visual prompts to simplify access to even the most sophisticated system features.

SUPERSET 430

Big Opportunities in Small Business
During fiscal year 1997, Mitel introduced new computer peripherals and a new voice system to meet the growing demand of home offices and the small to medium (under one hundred employees) business. Focus group research indicates that these businesses want access to new services including voice mail, auto attendant capability and computer telephony integration (CTI) that is easy to use and upgrade.

Into this dynamic marketplace, Mitel introduced the SX-200 ML telephone system offering sophisticated features in a cost-effective package for companies requiring 20 to 80 telephones. The system, designed on Mitel's principle of Intelligent Evolution, readily grows into an SX-200 LIGHT node supporting up to 400 lines.

The SX-200 ML system offers automated attendant and messaging, features that allow call handling when an operator is neither present nor available. Voice mail ensures that no call goes unanswered and lends a professional image while increasing productivity.

"Our report illustrates the value of uniting telephone and computer technologies over a single network through in-depth case studies with organizations in the process of convergence. [...] data network managers are beginning to evaluate the benefits of voice over LAN."

J'Amy Napolitan
COO & Senior Analyst, Infonetics Research

"Feedback from distribution partners and from the marketplace shaped our new entry in the small business marketplace, the SX-200 ML phone system, a product that's right on the money."

Ken Dumont
Head of Voice Systems, Mitel Corporation

CTI To Go
By supporting CTI applications, the SX-200 ML allows organizations to deploy a variety of productivity-enhancing applications by simply adding telephone sets and their choice of software. The system supports a wide range of Mitel and third party applications for the desktop and workgroup and is another example of how customers benefit from Mitel's open standards approach.

The SX-200 ML's Automatic Call Distribution (ACD) provides the professional call handling features that businesses need in order to respond to their clients more efficiently and effectively.

A Cost Effective Package
Access to network services allows a business to enjoy advanced networking services such as T1, analog and private network applications. There's also the option of reducing costs by supporting simultaneous transmission of voice and data over the same service through the system's data connectivity feature.

The SX-200 ML supports Windows-based attendant consoles and the acclaimed SUPERSET family of telephones and is ideally suited to manufacturing, professional services, small call centers, and branch offices, among many market segments.

A Small Business/Workgroup Solution
During 1996, Digital announced its Integrated Telecommunications AlphaServer

(ITA), the result of a joint development agreement between Digital and Mitel that provides standard telephone service and message routing — e-mail, voice mail and facsimile to Microsoft Windows 95 desktops. An off-site user can dial up to retrieve and read e-mail and fax messages via a PC as well as hear voice messages using the computer's sound card. Users can also send documents such as spreadsheets to colleagues with voice annotations, as well as faxes and standard Microsoft Exchange Server attachments.

Because MediaPath server is based on open standards, third party developers can easily create applications for specific vertical markets. For example, adding client billing for law offices, executive message services for hotels, real-estate listings, or in-the-field ordering for insurance policy holders.

MediaPath server allows ITA to provide telecommunications and computing in a single server that meets the needs of a small office or workgroup. This is a cost-effective alternative to purchasing individual components.

Good News for Developers/End Users

Mitel actively supports and stimulates the market for the development of CTI applications through its developers@work™ program. The result is a proliferation of CTI choices for users of Mitel equipment. In effect, software developed by third parties

"Mitel has built a bridge that finally brings data management models to voice applications, another important step towards realizing the convergence of voice and data infrastructures."

David Passmore

President, Decisys Inc.

"Mitel is a key CTI developer and supplier and we look forward to bringing their CTI solutions to our customers."

Laura Skinner

Vice President & General Manager of Telecom Integration Division, Ingram Micro Inc.

MITEL *Personal Assistant*

gives the end user more functionality, increased productivity, enhanced customer service, and reduced costs.

As part of the developers@work program, Mitel introduced a standards-based environment for developers who are building or porting applications for Mitel's MediaPath platform. The platform is being built into Windows NT servers and provides a complete telephony infrastructure plus the functions needed to create help desks, integrated messaging and call centers.

Home Office Solution

The work-at-home market continues to grow. For example, according to our research full-time and part-time home-based businesses have reached 24.5 million, an increase of 2.1 million in the last year. The Company, responding to this opportunity, developed a computer-attached telephone, a new category of computer peripheral for the desktop.

By tightly integrating a small business's two most important tools — the telephone and the personal computer — the MITEL *Personal Assistant* gives small businesses a competitive edge through increased productivity, improved customer service and an enhanced professional image.

MITEL *Personal Assistant* simplifies messaging and communications management and enables easy, intuitive control of incoming and outgoing communications.

Distribution Power — North America

During fiscal year 1997, Mitel took steps to add strength in distribution by continuing a high level of support for Mitel dealers and Elite dealers as well as by signing an agreement with Ingram Micro Inc., the world's largest wholesale distributor of technology products and services.

In the United Kingdom

During fiscal year 1997, Mitel acquired the assets and business of Global Village Communication (U.K.) Limited, one of the leading ISDN solution providers in the United Kingdom. The current product line includes ISDN network access products that allow for high volume digital communications between head office, local branches, home workers and agents in the field in a cost-effective manner. The line is complementary to Mitel's open, distributed architecture business communications solutions.

"MediaPath Developer's Environment aligns with Microsoft's vision of ensuring that developers don't have to reinvent enabling technologies or learn new programming environments. MediaPath's open architecture takes the headache out of learning telephony operatives because the Development Environment supports open, industry standards, e.g. TAPI, for call control. End users will reap the benefits of converged telephony and computer business applications developed and offered by third party vendors affordably."

Mitch Goldberg

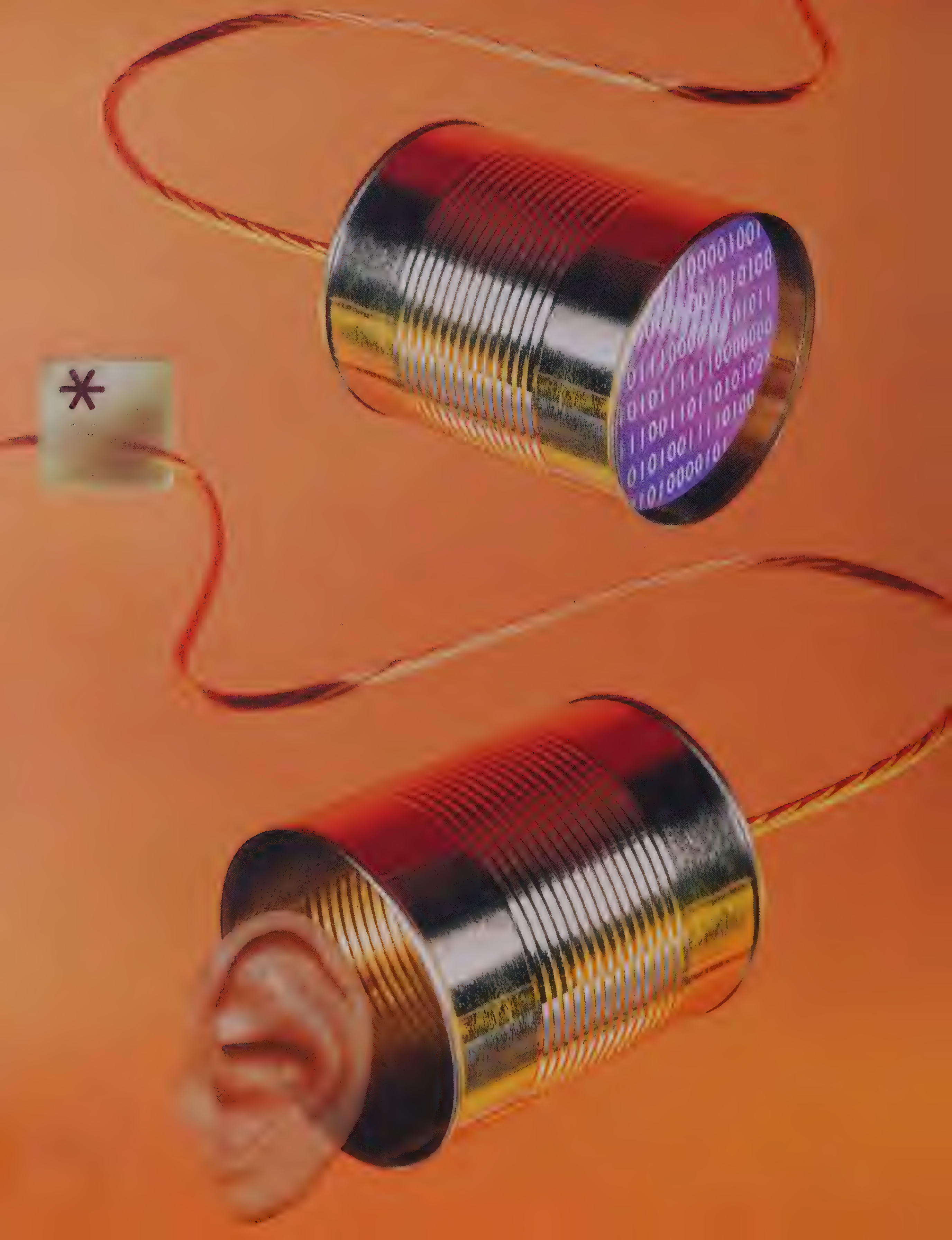
TECHNICAL EVANGELIST, WINDOWS NT NETWORKING & COMMUNICATIONS DEVELOPER RELATIONS GROUP, MICROSOFT CORPORATION

Mitel Technology — Innovative Applications

Mitel's Call Controller product group in Ogdensburg, New York, designs, markets and sells the SMART-1™ automatic dialer used in analog voice communications and fax markets. In September of 1996, the group produced its one millionth dialer, testimony to this technology's versatility and endurance. Based on market share figures available within the industry, Mitel believes it is the world leader in the supply of these network access devices.

The GX5000® central office system is used: as a digital end office replacement by US independent telephone companies; for digital overlay services employed to rapidly modernize networks in developing countries; to supply rural public switched telephone network services; as a satellite communications gateway; and as a key component in voice processing systems.

MediaPath Interface



IT'S THE SOUND OF BUSINESS SAVING MONEY.

Businesses that have combined their voice and data networks are not only reporting cost improvements, they are changing the ways they conduct their businesses because of these powerful, converged networks.

Our view is that customer premise voice systems will co-exist with an increasing proportion of converged networks. But ultimately, in the pursuit of cost reduction and still more efficiency, businesses in growing numbers will opt for a converged, do-everything network where voice is an application on the IT infrastructure. The only question is one of timing. Our answer:

We will continue to develop voice systems for our core markets while we actively pursue new opportunities in the IT industry. Mitel's core competency is voice and our expertise in voice ensures us a key role in this new arena.

The Compelling Case for Convergence

The convergence of voice and data offers incredible potential for improving customer service, enhancing productivity, simplifying networks and delivering operational cost efficiencies. Computer telephony integration (CTI) has moved from its origins within large corporate call centers to its current position in workgroup environments and on the desktop, fueled largely by the availability of "screen pops" and a host of other CTI applications.

The traditional definition of CTI is based on linking telephones and computers, allowing data to be shared and functionally integrated through Computer Support Telephony Applications (CSTA).

"We selected NeVaDa because it offers a unique, high bandwidth solution, providing high speed, multimedia communication between different sites and offices. We now benefit from a simplified network which offers excellent value for money."

Graham Yule

MARKETING MANAGER, ICL SOFTWARE TECHNOLOGIES LTD.

An Expanding Vision

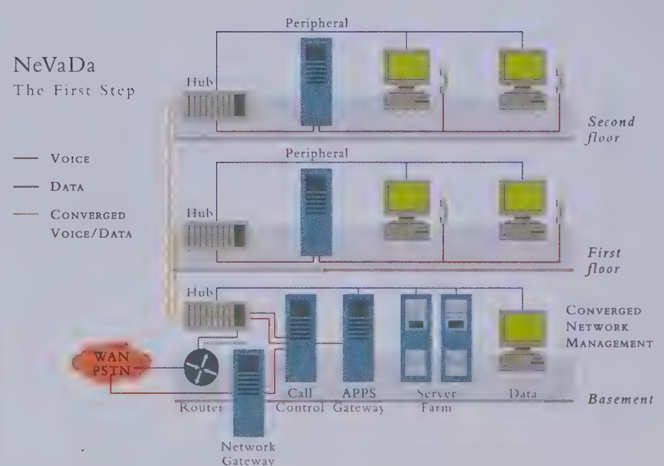
Mitel's vision of convergence extends beyond the simple, functional integration of computing and telephony to the convergence of computing and real-time communication services at all levels: on the desktop, in the workgroup, on the enterprise backbone and out into the wide area network (WAN). Voice will play a key role in this new paradigm as a fully integrated medium within the information processing infrastructure, together with data, video, and images.

Voice — Another Application

A recent report by market research firm Infonetics reveals that telephony is becoming a computer application, with voice just another data stream and high performance LANs providing the pipeline for delivering it throughout a network. Over half of IT

NeVaDa

The First Step



managers surveyed indicated they are considering or planning for the integration of voice traffic with their local area network.

In Mitel's convergence model, the PBX is a voice server on a converged enterprise LAN. This allows businesses to take advantage of high-bandwidth applications while leveraging existing networks — an important concern for users who need to optimize their communications resources.

With a clear vision of the future of voice communications in a converged world, Mitel began, in 1992, to migrate its earlier proprietary mainframe PBX architecture toward an open, distributed model of communications switching and delivery. The NeVaDa, networked voice and data, was introduced and launched in fiscal year 1997.

NeVaDa is a voiceLAN networking solution capable of delivering data, voice and video traffic over a single, converged broadband backbone within the enterprise, locally or across metropolitan areas. An essential NeVaDa component is an ATM module that uses switched LAN technology and provides the capacity to carry multiple media traffic over an integrated fiber backbone.

NeVaDa Speeds Administration

The installation of a NeVaDa solution in the Lewisburg (PA) Area School District led to significant improvements in overall administrative efficiency. The high speed and high bandwidth capabilities of the NeVaDa network have reduced payroll processing time from days to hours; purchase order processing time has plummeted from days to minutes; high speed data connectivity links the various school district locations; and new voice services are improving communications between parents, teachers and administrators.

At Passumpsic Savings Bank (VT), a NeVaDa installation makes for seamless interoperability between the bank's headquarters building and its operations facility allowing for check imaging transmittal, mainframe transaction processing, and inter-LAN file exchanges. Pleased with the results it has achieved, Passumpsic is considering the implementation of new services such as an interactive voice response application for its customers to complement the new voice mail system. New data applications including debit card services and imaging of loan files are also under consideration.

At the Root of It All

Although open standards benefit everyone from manufacturer to software developer, they are of particular value to the end user where they provide the freedom of choice that is conspicuously absent from proprietary solutions. In support of this belief, Mitel continues to be actively involved in industry standards initiatives including the Enterprise Computer Telephony Forum (ECTF), the ATM Forum, and the Universal Serial Bus Implementer's Forum (USB-IF).

NEVADA RECENTLY WON VOICE INTEGRATION PRODUCT OF THE YEAR AT NETWORKS '96 IN THE UNITED KINGDOM

"Using the NeVaDa solution, we were able to upgrade both our voice and data networks with the latest networking technology, and it provides us with all the bandwidth and resiliency we need to grow our operations."

Craig Lantagne

SENIOR VICE PRESIDENT OF OPERATIONS, PASSUMPSIC SAVINGS BANK

IT'S THE ROAR OF THE REAL-TIME REVOLUTION.

When companies want to combine voice and data on the same network, they must elevate that link to provide full real-time capability. Our semiconductor has these solutions... In silicon. In abundance.

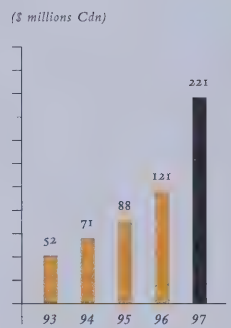
Mitel Semiconductor, the largest merchant semiconductor maker in Canada, turned in another strong performance, building on the successes of the last four years. The division is a leader in the design, manufacture and supply of microelectronic components and services to the fast-growing telecommunications and data communications markets worldwide. Custom wafer foundry services are provided to a variety of international clients.

The acquisition of ABB Hafo AB last year brought the division strength and diversity, adding optoelectronic components to the standard product portfolio and mixed-signal, Application Specific Integrated Circuits (ASICs) for medical and space applications to the custom portfolio.

The added strengths and the introduction of more than twenty new standard products during fiscal year 1997 resulted in an impressive 83% year-over-year growth for the division.

Standard Components

The ability to carry isochronous traffic is the key technology needed to deliver high quality voice and real-time image traffic, that is, high productivity multimedia. Mitel Semiconductor components deliver the shaping, transport and switching functions required for isochronous networks.



Semiconductor Revenue

"Mitel is first with innovative and highly integrated communications solutions. We like their products and service. They are a key component in our PHS base stations and have helped us to be successful in this fast growing market. We look forward to expanding our relationship with them."

Yasuhiro Ohishi

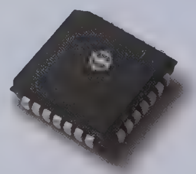
PURCHASING MANAGER, KYOCERA CORPORATION (JAPAN), PURCHASING DIVISION

For example, a Mitel chip in the telephone set shapes a voice signal so it can be transported. Other Mitel chips are used to do the transporting and finally, a Mitel switching IC connects the signal with its destination. The division thus provides end-to-end solutions for customers.

Mitel Semiconductor's analog line cards, telecom, networking, and optoelectronic components are used in a wide range of products, from PBX and transmission systems, multiplexers, and communications controllers, to remote access devices, wireless applications, LAN and WAN routers and pair gain.

Or Custom

For clients who require custom solutions to CMOS, mixed signal ASICs, medical and space applications, or other innovative devices, Mitel Semiconductor offers its considerable design, process and manufacturing knowledge. The design processes and manufacturing facilities are ISO 9000 registered and the division is actively pursuing ISO 14000



MT9122 Dual Channel Voice Echo-Canceller Chip

registration to ensure that its processes are environmentally friendly. The Caldicot hybrid facility is our first to be so registered.

Hot Markets

Mitel Semiconductor entered the "hot" Digital Signal Processing (DSP) marketplace in Fiscal 1997 by moving the MT9122, dual-channel Voice Echo-Canceller into volume production. The chip uses digital signal processing techniques to cancel echoes in a growing variety of applications including wireless; Personal Handy Service (PHS), and in the high growth market for voice over frame relay.

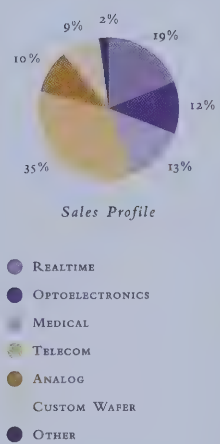
Another "hot" market is ATM networking. Here, the division continued its isochronous networking strategy with the introduction of the MT90500 multi-channel AAL1 chip that maps isochronous protocols onto an ATM network. (AAL1 stands for ATM Adaption Layer 1, a projected standard for transmitting Voice over an ATM network.) The Mitel chip also enables delivery of high quality multi-media signals.

T1/E1 Demand Grows

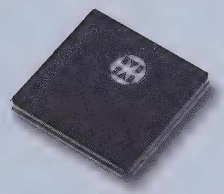
The internet, mobile communications and the urgent need for voice services in developing countries are continuing to drive demand for E1 and T1 networks. Our recently launched MT9075 is an E1 Frame/Line Interface Unit that makes quick work of adding E1 access to new networking products.

Mitel Strategy

GROWTH AND PROFIT THROUGH THE APPLICATION OF MICRO ELECTRONICS TECHNOLOGY TO COMMUNICATION SYSTEMS



Sales Profile



MT90500 Multi-Channel AAL1 Chip

The MH88435/7 is an analog line card solution so original that techniques used in the device are the subject of a patent application. This Data Access Arrangement or DAA interfaces the chip set in a modem to an analog telephone line. Such interfaces are used countless times each day as people use modems to dial up the Internet and other on-line services. This is the first DAA solution that meets international as well as country-specific requirements.

Mitel's new network synchronizer, the MT9042B, is proving to be especially popular with designers working on customer premise equipment including E1/T1 Boards for PC applications, digital switches for PBXs and central offices, LAN equipment including routers, ATM switches, and cellular radio base stations.

System designers confront a problem when some equipment such as routers, multiplexers, or cellular base stations are connected to the network. Each of these devices has its own timing mechanism yet

all must operate in perfect synchronization with the network's timing. Heretofore the solution has called for the costly development of discrete solutions and specific hardware as well as the challenge of interpreting obscure network timing specifications. By removing that burden the Mitel device significantly reduces the designer's development costs and time-to-market.

New Low Power DTMF

Mobile communication is one of the fastest-growing segments of the $800 billion-plus global telecommunications industry, and demands compact, lightweight equipment with extended battery life. Mitel Semiconductor is addressing the needs of equipment designers in that arena with the introduction this past year of the 3 volt MT88L85 and MT88L89 and the 5 volt MT8885 low power DTMF devices.

"Sales of Analog products should show a [...] resurgence. Revenues in 1997 are expected to go up 9.7% to $18.7 billion. The Analog market also should grow 16% in 1998 to $21.7 billion, 17.8% in 1999 to $25.5 billion and 19.2% in 2000 to $30.4 billion."

Jeff Weir

COMMUNICATIONS DIRECTOR OF THE SEMICONDUCTOR INDUSTRY ASSOCIATION

Silicon Wafer

High Capacity Switches

Mitel introduced the MT90840 distributed hyperchannel switch for use in real-time multimedia applications, and the MT90829 large digital switch used in building switching systems of up to 2,048 channels.

Optoelectronic Products

Optoelectronic devices are generally used to turn electrical signals into pulses of light that carry information through fiber optic cables. The market for fiber optics and related components has matured to a level where standard products can meet many of the most demanding performance requirements in such areas as Fiber Distributed Data Interface, Fiber Channel, Ethernet, ATM and SDH/Sonet. In addition, the Opto group has been, for decades, collecting customer feedback on packaging, PC board and panel mount options, marketing, pin-outs, receptacles and connectors, feedback which has contributed markedly to the ongoing success of standard products in the Opto portfolio.

Medical Applications

Mitel Semiconductor is a leading supplier to both pacemaker and hearing aid manufacturers, products that call for low power consumption, complex, mixed-signal functionality, high levels of integration and uncompromising reliability. Three of the world's top five pacemaker manufacturers use Mitel chips which puts Mitel components

in nearly one million pacemakers. Together, these ICs consume less power than one, 50-watt incandescent light bulb.

Aerospace

Mitel offers considerable experience in the development of radiation-hardened ICs, primarily for the Space Industry. Mitel's Silicon-On-Sapphire (SOS) MOS technology provides both the radiation hardness and the level of integration required in space projects. Today, Mitel integrated circuits are found in more than 40 satellites and space vehicles.

Business Environment Encourages Growth

In developing economies, infrastructure from roads and sewers to airports and communications is under construction. In developed economies, cost reduction drives the need for innovative solutions to existing applications while convergence drives development of new applications. The market for specialized chips in medicine is fueled by the urgent need to reduce costs and improve services, and by quality of life issues. Given these conditions, Mitel Semiconductor's product strategy calls for:

→ continuing to exploit its telecommunications expertise, including isochronous networking;
→ providing innovative solutions for existing applications such as its new DSP chips;
→ enabling emerging multimedia networks where data and image traffic are merged with voice;
→ continuing to exploit its strength in mixed signal ICs;
→ using its embedded fab to ensure supply and reduce costs for its customers;
→ operating in fabless mode when aggressive, deep, sub-micron technologies are required.

"Customer demand has turned communications and networking into high growth market segments. Our products address this demand and that's why we share a high level of confidence in the future."

François Cordeau

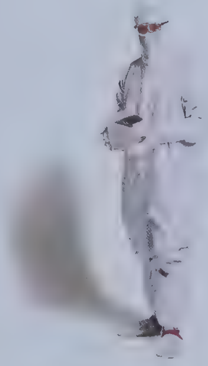
Vice President, Semiconductor Manufacturing Operations

"We have found Mitel to be most responsive in developing semiconductor solutions to meet our requirements in the CT market. Our cooperative experience and association with them has been so far most enlightening and beneficial."

Michel Laurence

President & CTO, InnoMediaLogic

Mitel Semiconductor's assets include the process technologies that it has developed, its highly-trained sales channels, the best-in-class support it provides worldwide, and a staff of bright, aggressive, dedicated employees.



Clean Room Suit

IT'S OUR RESPONSE AND COMMITMENT TO THE ENVIRONMENT.

In an ongoing worldwide effort, Mitel continued to develop new ways of reducing the impact of its operations on the environment and of improving the ecological balance at its locations. On February 12th, 1997, Mitel Semiconductor Hybrid Operations in Portskewett, South Wales, was the first Mitel manufacturing location to receive certification to the ISO Environmental Management System Standard known as ISO 14001. The certification process was accomplished within a four month period and at a minimal cost. Mitel manufacturing sites in Bromont, Quebec; Kanata, Ontario; and Järfälla, Sweden, are currently implementing programs to meet the requirements for ISO 14001 certification by the end of Fiscal 1998.

THERE ARE FIVE MAJOR ELEMENTS TO THE ISO 14001 STANDARD A CORPORATE ENVIRONMENTAL POLICY, PLANNING ACTIVITIES, AN IMPLEMENTATION STRATEGY, AN AUDITING PROGRAM AND A MANAGEMENT REVIEW

Closed Loop Recycling in Canada
Mitel Kanata and its respective suppliers established what is referred to in the paper industry as a "closed loop recycling" (CLR) program. Under this process, pieces of Mitel stationery, for example, are discarded into special bins. From there they are subsequently shipped to the recycling plant and are eventually returned to Mitel as clean pieces of stationery. No other waste is added during the process, hence the term, "closed loop."

Conserving Water And Electric Power
In addition to a 26% reduction in consumption of deionized water, the Mitel Bromont Semiconductor operation included energy

conservation considerations in the design of its new Wafer Fab facilities. High efficiency lights and electric motors that require less power were installed, along with scrubbers that limit air emissions from production processes. Emissions will be monitored with the newly-installed Air Composition Monitoring (ACM) system.

Cleaner Water

As part of a Storm Water Quality Improvement Project, Mitel World Headquarters at Kanata, Ontario, in partnership with the City of Kanata, made changes to its storm water drainage system to improve the quality of run-off water from a nearby business park. A detention pond, established on Mitel property, will improve the quality of water that reaches the Ottawa River.

Additional Achievements:

→ Ogdensburg (US) reduced kWh usage by 1.6% and propane/natural gas consumption by 0.5%.

→ Bromont (Canada): modifications to the Deionized Water System resulted in a savings of $17000. Because less energy is now required to heat the water, an additional savings of $7000 has been realized. The increased efficiency of a new V15 air intake system for Wafer Fab Number Two enabled the company to save $10000 in energy costs while high efficiency 30-watt florescent tubes have replaced the older 40-watt tubes while maintaining satisfactory lighting levels in the new Wafer Fab Number Three.

→ Järfälla (Sweden): energy from air compressors is now used to heat tap water while energy from production cooling systems contributes to warming the facility. Annual savings are about 1.6 million Kr (~ $300 thousand Cdn).

→ Caldicot (U.K.): initiated plans to implement a system in the Semiconductor Hybrid Business Unit to recycle process waste water. A reduction in water consumption of thirty percent is anticipated.

Both Caldicot and Järfälla have successfully replaced Refrigerant CFC blends and HCFCs (R22 & R502) with HFCs (134a and 404a), ahead of the 2030 deadline.

To manufacture is to consume. But we find increasingly that in amount and kind, such consumption can be tailored in ways that meet not only our needs, but those of a greener earth.

THE POND IS USED TO COOL THE FACILITY IN THE SUMMER MONTHS. HEAT GENERATED IN OFFICE AREAS IS TRANSFERRED TO THIS POND WHERE IT IS DISSIPATED THROUGH EVAPORATION. WATER TEMPERATURE IS INCREASED BY SUCH A SMALL AMOUNT THAT FISH CONTINUE TO THRIVE IN THE POND. WITHOUT [illegible]

"Mitel Corporation is committed to proactive environmental management in our business; we firmly believe that this commitment promotes the interests of the Company as well as our customers in relation to protecting the environment."

Donald G. McIntyre

VICE PRESIDENT HUMAN RESOURCES, GENERAL COUNSEL & SECRETARY, MITEL CORPORATION

: the interface between an application and the network service or another program. APIs free developers from worrying about network protocols or the detailed workings of an operating system, and allows them instead to focus on their own area of expertise, creating high value software programs.

: a fast packet switching technique (see Packet Switching). Short packets or cells containing data plus addressing and control information can be moved over networks at high speed. Cells can carry data, as well as digitized voice and video signals. ATM's core advantages include scalability — there is no theoretical speed limit for future implementations — and the ability to mix any form of digital information, including digital telephone calls.

: the tones generated by a touchtone telephone.

: a 2.048 Mpb/s digital transmission link, the digital transmission standard used in Japan and Europe.

: a body working to create an open, standards-based marketplace for existing as well as emerging CTI products.

: term used to describe a system which has attributes of both a key telephone systems and a PBX. The distinguishing feature is that a hybrid key system can use normal single line phones in addition to electronic key phones. A single line phone behind a hybrid works very much like a single line phone behind a PBX. The second distinguishing feature of a hybrid is that it's "non-squared," meaning that not every trunk appears as a button on every phone in the system — as occurs on virtually every electronic key system manufactured today.

: an integrated digital network in which the same digital switches and digital paths are used to establish connections for different services, for example, telephony and data.

: derived from the Greek "iso" meaning equal, and "chronous" meaning time. In an isochronous data transmission, timing is derived from the signal carrying the data. No timing or clock lead is provided at the customer interface. When used in transporting voice signals over an ATM network it dramatically improves the voice quality.

: previously known under the general heading, Management Information Systems or MIS. Prior to the days of MIS it was simply data processing.

: a system that provides direct selection of an outside line from a multi-line telephone set. Functions such as line holding and intercommunications are selected at the instrument. Visual indications are given on the status of each line associated with the instrument. The system includes all associated instruments of on-premise equipment.

: the core product from the Mitel-Madge partnership. NeVaDa provides the infrastructure for converging voice and data and video onto one universal, broadband switching fabric.

: a point of connection into a network.

: a means of moving data over a network. Information is broken up into packets. Each packet contains a header identifying its origin and its destination. Computers known as packet switches that make up the network read these headers and route the information closer and closer to the destination. When traffic is heavy on such a network, rather than shut down, the network simply begins to institute momentary delays, holding packets until routes are available. With data transmission this normally presents no problem. But when a real-time application such as voice or full-motion video is transmitted via packets, these delays quickly become intolerable.

: a "branch" of the telephone company's central office exchange, usually located on the customer's premises, to provide connections between the extension telephones within the business as well as connections to public and private networks outside the business.

: the most common method of encoding an analog voice signal into a digital bit stream.

: endpoint of a network link.

: a 1.544 Mbp/s digital transmission link, the North American standard for digital transmission.

— *BACKED BY INTEL AND MICROSOFT*: a programming interface and architecture designed to stimulate third party developers of shrink-wrapped telephony applications for Windows-based PCs and LANs. Introduced in 1993, standard on Windows 95.

— *FROM NOVELL AND AT&T*: developed to allow computer telephony integration of Novell LANs with AT&T switches. Has its origins in the European Computer Manufacturing Association (ECMA) standard for Computer Supported Telephony Application (CSTA).

: the integration of voice across the LAN (not just CTI but multimedia, point-to-point voice, and integrated voice/data messaging).

FINANCIAL REVIEW

In Fiscal 1997, the Company achieved another year of significant overall revenue growth. Fiscal 1997 total revenue was $695.5, 21 percent above the total revenue achieved in Fiscal 1996 and 18 percent above Fiscal 1995's total revenue. The growth was driven primarily by the success of the Semiconductor division which continued to experience high demand for the Company's microelectronic communication components. In addition, Fiscal 1997 results reflected the consolidation of Mitel Semiconductor AB, the Swedish semiconductor fab operation, which was acquired at the end of Fiscal 1996. Business Communications Systems (BCS) sales showed only modest growth over last year. During the fourth quarter of Fiscal 1997, management initiated plans to re-focus the BCS operations toward improving the sales channels and product time to market activities and at the same time reducing corporate support costs. To carry out this plan, the Company recorded a $13.0, or $0.12 per share, restructuring and other charge to operating expenses in the fourth quarter. After recording the charge, the Company reported Fiscal 1997 net income of $38.0, or $0.32 per share, $13.0 less than the prior fiscal year when net income was $51.0, or $0.45 per share, but $6.2, or $0.05 per share better than Fiscal 1995's net income. Net income for the three fiscal years ended March 28, 1997, March 29, 1996 and March 31, 1995 as determined by U.S. accounting principles is detailed in Note 21 to the consolidated financial statements.

The following discussion and analysis explains trends in the Company's financial condition and results of operations for the year ended March 28, 1997 compared with the two previous years, and is intended to help shareholders and other readers understand the dynamics of the Company's business and the key factors underlying its financial results. Certain statements in the Annual Report and in this management's discussion and analysis constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, demographic changes, import protection and regulation, major technology changes, timing of product introductions, industry competition, industry capacity and other industry trends, and the ability of the Company to attract and retain key employees. The consolidated financial statements, notes to the consolidated financial statements and supplementary information constitute an integral part of and should be read in conjunction with this management's discussion and analysis. Readers may wish to make reference to the glossary of terms on page 26 of the Annual Report to assist in their understanding of this discussion.

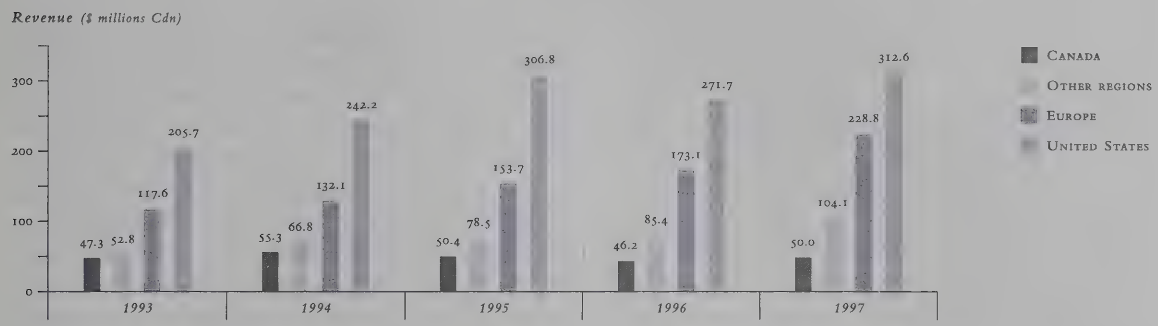
The Company's fiscal year-end is the last Friday in March. Normally this results in a fifty-two week year with four thirteen-week quarters. For Fiscal 1995, the year-end of the Company was March 31, 1995, which resulted in a fifty-three week year with one additional week occurring in the first quarter of that year. Accordingly, part of the change in revenue, associated costs, and expenses may be attributed to one additional week in Fiscal 1995 compared to fiscal years 1997 and 1996.

Results of Operations

Mitel's business is global and comprises the design, manufacture and sale of systems, subsystems and microelectronic components to world markets in the telephony, computer telephony integration (CTI) and communications industries. These products and related services include: voice communications systems; networked voice and data systems and CTI applications; client server telecom products; public switching systems; network enhancement and access products; integrated and hybrid circuits; optoelectronic devices and custom silicon wafers.

The Company sells its products through both direct and indirect channels of distribution. Factors affecting the choice of distribution, among others, include: end-customer type; the level of product complexity and integration requirements; the stage of product introduction; geographic presence and location of markets, and volume levels.

Revenue during the last five fiscal years, based on the geographic location of Mitel's customers, was distributed as follows:

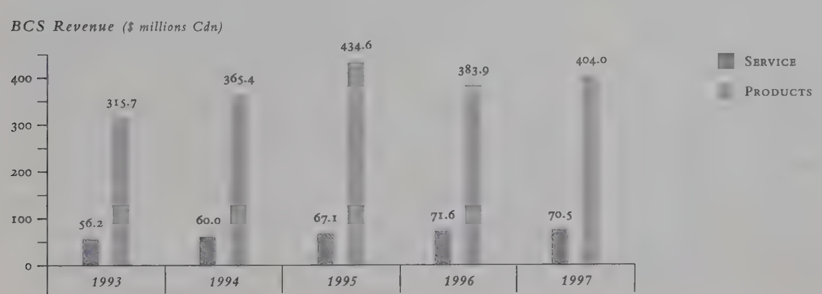


The net movement in exchange rates from Fiscal 1996 favorably impacted total revenue by 0.3 percent ($2.3) as a result of changes in the United States dollar and United Kingdom pound sterling exchange rates. Fiscal 1996 revenue was positively impacted by one percent ($6.9), when compared with Fiscal 1995, as a result of changes in the United States dollar and United Kingdom pound sterling exchange rates.

Business Communications Systems Business Communications Systems (BCS) comprise PBX equipment and peripherals, CTI products and applications, client server telecom products, call controller products, the GX5000, and RADICALL. All of the Company's service revenue relates to business communications systems, primarily PBX. Fiscal 1997 BCS revenue, in total, was $474.5, a 4 percent increase from Fiscal 1996's figure of $455.5.

Fiscal 1997 results reflected improved sales across all regions in which the Company operates, despite intense competitive pressures.

Compared to last year, BCS product revenue increased by 5 percent to $404.0 due to increased European demand for the Company's call controller products, improved sales of CTI applications in all markets, and higher SX200 sales to U.S. supply houses and dealers. With respect to call controllers, European sales increased in Fiscal 1997 as a result of deregulated network access services in the U.K. which created a strong demand by alternate carriers for Mitel's call controllers. In Fiscal 1997, the North American BCS performance recovered slightly due to marketing programs and sales initiatives introduced late in Fiscal 1996 to meet intensifying competitive challenges. The recovery was evidenced by growth in line shipments in the U.S. market. In particular, sales into U.S.



supply houses were up, also benefiting from the strength of a healthy economy in that country. In addition, sales of central office equipment improved over Fiscal 1996 as Mitel increased its share of the independent telephone company market. Overall, Fiscal 1997 lines shipped increased by 16 percent over lines shipped in Fiscal 1996. This increase was mostly attributable to the higher product sales in the indirect sales channels. These increases were offset partially by lower new installations through the Company's direct sales channels in both the U.S. and in Europe. Market share in the U.S., based on total lines shipped, improved to 7.4 percent in calendar 1996, up 0.4 percentage points from calendar 1995 (based on market research published by Phillips InfoTech). In the U.K., Mitel's second biggest market for BCS products, market share, based on new lines shipped, increased to 13.0 percent in calendar 1996, up 1.2 percentage points from calendar 1995 (based on market research published by Marketing Services).

BCS service revenue decreased by 2 percent from last year to $70.5, mainly as a consequence of the sale of all of the Company's North American non-Mitel PBX and key system customer base and the sale of certain U.K. maintenance contracts to other service providers mid-way through Fiscal 1996. As expected, in proportion to total revenue, BCS service revenue decreased by one percentage point to approximately 10 percent as a result of disposing of these revenue streams.

CTI revenue benefited in the year from efforts made in Fiscal 1996 to train the Company's voice system sales force and distribution channels for the CTI/convergence products and applications migration, but the improvement was only modest as the market has not responded to CTI opportunities as quickly as management and industry analysts had expected. Management remains committed to CTI and the broader convergence category of a combined telecommunications and information technology. The Company intends to use its core competency in voice products to play a major role in these new markets. Management believes Mitel is well positioned to succeed in the convergence market by providing voice solutions as an application over corporate LANs as well as other CTI products including call center applications. The Company plans to continue marketing voice products in the Company's core markets as well as working with strategic partners to take advantage of new opportunities in the information technology industry.

On January 31, 1997, the Company acquired for cash consideration of $5.1 the business and assets of Global Village Communication (U.K.) Limited, an integrated service digital network (ISDN) solution provider based in the United Kingdom. The acquired product line currently consists of leading edge ISDN access products and technologies which allow for high volume digital communications between head office, local branches, home workers and agents in the field in a cost-effective manner. This product line complements Mitel's open and distributed architecture of business communications solutions and Mitel's initiative in bringing telecommunications and computer technology together. Revenue for Fiscal 1997 was not significantly impacted by this acquisition.

Mitel's BCS focus in Asia Pacific continued to be its joint venture located in Tianjin, China, and Mitel (Far East) Limited. In Fiscal 1997, Mitel increased the localization of manufacturing Mitel product by the joint venture for the China market. However, BCS revenue growth for this region has not met with management expectations due, in part, to the effects of tight monetary policies and intense price competition in China. Management remains confident in the long-term prospects of this region, but has determined it prudent to record a write-off of its investment in the joint venture as part of the restructuring and other charges described in the following paragraph.

During the fourth quarter of Fiscal 1997, the Company announced plans to restructure its BCS operations in light of the competitive conditions in the market place and the need to curtail certain non-profitable activities. A total charge of $13.0 was recorded to the Company's operating expenses. This charge included an amount of $5.0 for the write-off of the Company's investment and related assets in Tianchi-Mitel Telecommunication Corporation (TMTC), the Company's joint venture in Tianjin, China. The remaining $8.0 was provided primarily for termination benefits, related to BCS operations in North America and the United Kingdom, which will result in a net cash outlay by the Company over the next twelve months. These cash outflows will be funded through the Company's

cash provided from operations. In addition, as part of its restructuring plans, the Company is determined to curtail further development of its RADICALL products. During the last few years, the Company rolled out RADICALL product to Regional Bell Operating Companies and public network operators in the U.S. and, more recently, into the United Kingdom. However, management believes the inroads made to date have not been sufficient to justify further development of the product, although the Company plans to support the product for existing customers. In addition, management is working to streamline the major sales, service and distribution channels and to reduce supporting corporate expenses. Management expects to realize annualized savings to operating expenses of approximately $13.0 within the next fiscal year.

Fiscal 1996 BCS revenue decreased by 9 percent to $455.5 from Fiscal 1995's revenue of $501.7. Fiscal 1996 reflected mixed results with highly competitive market conditions having a negative impact on BCS revenue, particularly in North America. In Fiscal 1996, BCS product revenue decreased by 12 percent. In addition, Fiscal 1996 lines shipped decreased by 7 percent over lines shipped in Fiscal 1995 causing market share to decline slightly in calendar 1995. European revenue grew on the strength of upgrades and expansion sales to its installed base, call center application sales, and higher maintenance service revenue. The Asia Pacific region, included in other geographic markets, maintained its revenue base under highly competitive conditions. Revenue also decreased in Fiscal 1996 due to the sale of Mitel's non-core PBX and key system base and certain service contracts to other distributors mid-way through that year. In Fiscal 1996, BCS service revenue increased by 7 percent over Fiscal 1995 due to higher maintenance and service revenue in the European region which resulted in part from the one-time sale of certain maintenance contracts to other service providers.

In Fiscal 1995, the Company eliminated its direct BCS sales operations in Italy and Germany due to poor performance in those countries and recorded a $5.0 restructuring charge in that year to complete the closing of offices and termination of staff. The Italian and German restructuring was initiated in the second quarter of Fiscal 1995 and was substantially completed by the end of that year.

Semiconductors As a percentage of total revenue, semiconductors accounted for 32 percent, 21 percent and 15 percent, respectively, in fiscal years 1997, 1996 and 1995.

Semiconductor Revenue ($ millions Cdn)

Semiconductor revenue showed successive annual growth rates of 38 percent and 83 percent, respectively, in Fiscal 1996 and in Fiscal 1997. The revenue growth was the result of the additional revenue from Mitel Semiconductor AB, which was acquired at the end of Fiscal 1996, and increased demand for the Company's integrated circuits, wafers and thick film hybrid products in all regions.

The increase in Mitel's semiconductor business reflects the worldwide growth in the communications segment of the semiconductor industry. Mitel is experiencing growth in countries where there is a demand for Mitel's line of communications components from manufacturers of advanced voice, data and multimedia equipment in North America, Asia and Europe. Increased demand for communications products incorporating existing Mitel Semiconductor components by the Company's traditional customer base, along with the introduction of new components, including those intended for CTI/multimedia applications, led to increased sales volumes compared to last year.

The Company took major steps in Fiscal 1996 to expand its production capacity through both the acquisition of Mitel Semiconductor AB, which has a semiconductor plant in Järfälla, Sweden, and a major capital expansion program at its fabrication plant in Bromont, Quebec, Canada. Both initiatives were necessary to meet the growing demand for Mitel's integrated circuits. The most significant part of the first phase of the Bromont expansion program, which concerns the improvement of the volume capacity of the

existing 100 mm wafer production, was completed during the first quarter of Fiscal 1997. The second part of the first phase, which will introduce new 0.8 micron technology, will be completed during the second quarter of Fiscal 1998. The second phase, intended to increase the plant's production capacity by converting to 150 mm wafer production, is scheduled to be completed in the beginning of calendar 1998. The estimated time to complete the second phase is approximately one fiscal quarter later than originally planned.

Subsequent to the acquisition of Mitel Semiconductor AB, management concluded that the thermal print head (TPH) portion of the business was not strategic to the Company's interests. On October 23, 1996, the Company sold the TPH operation, including related inventory, fixed assets and certain intellectual property rights to a German distributor. The sale of the business did not have a significant impact on the Company's financial position or results of operations for Fiscal 1997 and will not have a significant impact on the Company's financial position or results of operations in the future.

Gross Margin

As a percentage of total revenue, the total gross margin for the year was 50 percent, one percentage point higher than Fiscal 1996, and five percentage points higher than Fiscal 1995. Margins were strong primarily due to a good mix of higher margin products sold, particularly in semiconductors, high sales volumes, and cost efficiencies obtained in the manufacturing plants.

Product gross margin was 52 percent in Fiscal 1997 as against 51 percent in Fiscal 1996 and 47 percent in Fiscal 1995. Service gross margin was 33 percent in Fiscal 1997 compared to 36 percent in Fiscal 1996 and 28 percent in Fiscal 1995. Product gross margins improved each year due to changes in the sales mix with a higher proportion of semiconductors and high value applications. In addition, manufacturing efficiencies were achieved each year on higher semiconductor volumes through the plant and cost reductions achieved in manufactured system products. Fiscal 1997 service gross margins were lower than in Fiscal 1996 when service gross margins benefited from the sale and transfer of certain U.K. maintenance contracts to Bailey Telecom Limited.

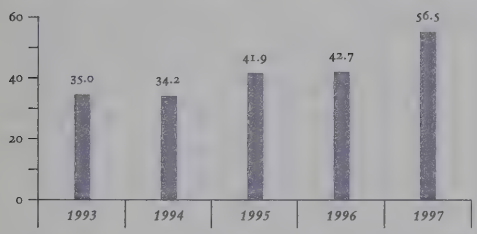
Operating Expenses

Selling and Administrative Selling and administrative (S&A) expenses increased in Fiscal 1997 to $208.4 from $172.2 in Fiscal 1996. As a percentage of sales, Fiscal 1997 S&A expenses were 30 percent, the same as in Fiscal 1996 and Fiscal 1995. S&A expenses were higher than in Fiscal 1996 primarily due to the inclusion of the results of operations of Mitel Semiconductor AB. In addition, operating expenses increased due to higher costs associated with new marketing initiatives and product launches (with respect to CTI applications, work group solutions, PC telephony and in support of the NeVaDa networked voice and data product), costs associated with higher sales volumes and higher product support costs. The marketing-related costs included increased trade show activity, new corporate communications material, course development for dealers and end-customers, and an increase in head count.

Fiscal 1996 S&A expenses decreased over Fiscal 1995 primarily as a result of closing the Italian and German direct PBX sales operations and improved operating efficiencies in the U.S. sales organization. Additionally in accordance with a research and development (R&D) contract with British Telecommunications plc (BT), the requirement to pay BT levies on SX2000 product sales expired on March 31, 1995. In Fiscal 1995, levies of $4.4 were included in S&A expenses for which there was no corresponding amount in Fiscal 1996. The benefit of these savings discussed above helped to offset higher costs associated with new marketing initiatives and product launches, and incentives associated with the improved earnings performance in Fiscal 1996.

Research and Development R&D expenses were $56.5 and 8 percent of revenue for the year ended March 28, 1997. This compares to $42.7 and $41.9, and both at 7 percent of revenue, for Fiscal 1996 and Fiscal 1995, respectively. These amounts were exclusive of related R&D capital asset amortization and net of government R&D incentives earned in each year. R&D increased as a percentage of sales compared to last year mainly due to the inclusion of Mitel Semiconductor AB which currently has a significant program for new integrated circuits and optoelectronic components.

R&D Expenses ($ millions Cdn)



Government R&D incentives earned and included in R&D expenses amounted to $0.2 in Fiscal 1997, $0.3 in Fiscal 1996, and $0.6 in Fiscal 1995. In addition, the Company recorded $11.7 of Canadian investment tax credits not previously recognized relating to prior years' R&D which compares to $7.7 recorded in Fiscal 1996.

Mitel's R&D program integrates its programs for existing products with development work in emerging technologies including, among others, the following: CTI; multimedia components and applications; networked voice and data; client server telecom; new ISDN applications; and real-time application specific microelectronic components.

Amortization Amortization increased in Fiscal 1997 to $33.5 from $19.2 and $16.5 in Fiscal 1996 and Fiscal 1995, respectively. The increase over Fiscal 1996 was due primarily to the inclusion of Mitel Semiconductor AB's results of operations, upgrades made to the Company's other manufacturing plants, and a major semiconductor capacity expansion program. Similarly, the increase in Fiscal 1996 over Fiscal 1995 was primarily due to ongoing replacements and upgrades to the Company's semiconductor and other manufacturing plants during the latter part of Fiscal 1995 and throughout Fiscal 1996.

Investment and Interest Income

On September 27, 1996, the Company sold a non-strategic investment in Esprit Telecom (Jersey) Ltd. (Esprit), a company which provides value added network services through leased lines to European based corporate accounts. The Esprit investment was sold for cash proceeds of $3.7, representing a total gain of $3.6, or $2.4 after-tax. The gain has been excluded from operating income in Fiscal 1997.

Interest income was $6.0 for Fiscal 1997 compared to $10.0 and $5.7 for Fiscal 1996 and Fiscal 1995, respectively. The decrease in interest income in Fiscal 1997 resulted from lower Canadian interest rates and from lower average cash balances available for investment. Cash balances available for investment were reduced due to the acquisition of Mitel Semiconductor AB for $44.0 on the last day of Fiscal 1996. This acquisition was financed in its entirety from the Company's cash resources. The increase in interest income in Fiscal 1996 over Fiscal 1995 resulted from higher average cash balances available for investment and higher interest rates in Fiscal 1996 relative to Fiscal 1995.

Interest Expense

Interest expense was $2.4 for Fiscal 1997 compared to $1.7 and $1.2 for Fiscal 1996 and Fiscal 1995, respectively. The increase in interest expense over the past three years resulted from an increase in the Company's capital leases.

Income Taxes

Income tax expense for Fiscal 1997 was $20.6 compared to $15.0 and $1.0 for Fiscal 1996 and Fiscal 1995, respectively. The Company follows the cost reduction method to account for investment tax credits (ITCs). Accordingly the ITCs, related to prior years' research and development, were applied against research and development expenses and tax expense was increased by a corresponding amount. Consequently, the combination of accruing for the ITCs and the incremental tax expense resulted in an insignificant impact to net earnings or earnings per share. Before accounting for the investment tax credits, income tax expense for Fiscal 1997 was $8.9 compared to $7.3 for Fiscal 1996 and $1.0 for Fiscal 1995 resulting in an effective tax rate of 19 percent, 13 percent and 3 percent respectively. The increased tax expense in Fiscal 1997 was due to higher taxable earnings in the U.K., primarily as a result of the gain on the sale of Esprit and to higher taxes in Canada for higher provincial taxable income as a result of claiming investment tax credits.

The increased tax expense in Fiscal 1996 was due primarily to the earnings improvement in the Company's U.K. operations.

At the end of Fiscal 1997, the Company had tax loss carryforwards of $100.0, investment tax credit carryforwards of $60.0 and timing differences of approximately $32.0. No accounting benefit has been recognized in respect of these carryforwards due to the lack of virtual certainty or reasonable assurance, as applicable, of realizing the benefits from the operations in which the carryforwards and timing differences arose. Management periodically reviews the virtual certainty or reasonable assurance, as applicable, of realizing the carryforward and timing difference benefits in the determination of their accounting recognition. Such review may, in the future, result in the recording of the accounting benefit for these timing differences and investment tax credit carryforwards, as the circumstances warrant, and the recognition of loss carryforwards, as realized.

Other

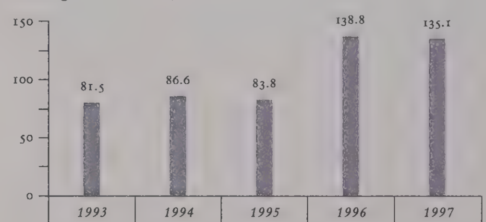
Management periodically evaluates the financial and operational independence of its foreign operations and the resulting accounting classification of the foreign subsidiaries as self-sustaining enterprises. Should a foreign subsidiary cease to be classified as self-sustaining, then translation gains or losses on consolidating the foreign subsidiary's financial statements would be charged to operating income instead of a separate component of shareholders' equity.

The Company manages foreign currency risk by protecting the estimated future foreign currency cash flows of each operating division, and certain significant transactions from adverse foreign exchange fluctuations. The Company does not engage in a trading or speculative hedging program.

The Company believes that inflation has not had a material impact on revenues and costs during the last three fiscal years.

Backlog As orders are frequently booked and shipped within the same fiscal month, order backlog is not necessarily indicative of a sales outlook for the month, quarter, or year. This is most true for the Company's business communications systems although manufacturing lead times for semiconductor products are generally longer because of the nature of the production process. At March 28, 1997, order backlog was $135.1 compared to $138.8 at March 31, 1996 and $83.8 at March 31, 1995. The decrease in backlog from the end of Fiscal 1996 was mainly attributable to the effects of the sale of the thermal print head business in the third quarter of Fiscal 1997. These decreases were offset partially by an improvement in the Company's North American BCS indirect sales channel. Most of the backlog is scheduled for delivery in the next twelve months.

Backlog ($ millions Cdn)



The acquisition of Mitel Semiconductor AB at the end of Fiscal 1996 accounted for most of the increase to the Company's total backlog outstanding at March 31, 1996 as compared to the end of Fiscal 1995.

Liquidity and Capital Resources

The Company had cash and short-term investment balances of $143.3 at March 28, 1997 compared to $137.3 at March 29, 1996. The increase of $6.0 from the end of Fiscal 1996 was due to cash flow provided by operations. Cash flow provided by operations amounted to $66.1 during the year ended March 28, 1997. This compares to Fiscal 1996 and Fiscal 1995 when cash provided by operations was $70.4 and $50.9, respectively. Since March 29, 1996, the Company's working capital decreased by $4.0 to $206.3 due primarily to an increase in accounts payable and accrued liabilities partially offset by an increase in inventory and accounts receivable levels.

Accounts payable and accrued liabilities were higher at year-end due to increased inventory purchasing activity to support increased sales levels and additional provisions for the Company's restructuring

program. Cash outflows related to the restructuring and other provisions were not significant in Fiscal 1997. Inventory increased by $10.6 since last year to bring levels in line with the expected operating requirements. The Company maintains a minimum amount of critical inventory to ensure continuity of supply for its manufacturing requirements. Most of the security supply inventory is carried at the Company's semiconductor plants. As at March 28, 1997, the security supply inventory was $3.1 compared to $2.9 at March 29, 1996. Accounts receivable increased over last year due to the higher sales levels in the fourth quarter of Fiscal 1997 as compared to the fourth quarter of Fiscal 1996.

Fixed asset additions were $73.7 during Fiscal 1997, and were primarily for the increase in semiconductor manufacturing capacity and technology enhancements as well as upgrades to the Company's information technology resources. The semiconductor capital program is comprised of two phases. Phase one, which commenced in the third quarter of Fiscal 1996 and was completed during the first quarter of Fiscal 1997, except for the introduction of the new 0.8 micron technology which will be completed in the second quarter of Fiscal 1998, cost approximately $10.1 and phase two (scheduled to be completed during early calendar 1998) is expected to cost approximately $39.0. Approximately $33.4 has been spent on phase two as at the end of Fiscal 1997. As at March 28, 1997, there were approximately $2.0 in capital expenditure purchase orders outstanding related to the Bromont expansion program. Management expects that Fiscal 1998 capital expenditures will be lower than Fiscal 1997 levels.

Subsequent to year-end, the Company entered into an agreement to sell the Boca Raton facility, which was previously held as an asset for resale. The proceeds from the sale of approximately $6.2 will be used to extinguish the Florida industrial revenue bonds amounting to $4.1 as at March 28, 1997 to which the facility was pledged as security. Management expects the sale of the facility would not have a significant impact on the results of operations.

On January 31, 1997, the Company acquired the business and assets of Global Village Communication (U.K.) Limited, an ISDN solution provider based in the United Kingdom, for cash consideration of $5.1. The acquisition was financed in its entirety by the Company's own cash resources. Goodwill of $3.3 was recorded for the excess of the purchase price over the fair value of the assets acquired, which will be amortized on a straight-line basis over the next five years.

Total long-term debt increased, net of repayments, by $7.0 from the end of Fiscal 1996. The increase was due to new capital leases partially offset by a repayment in full of the advances received under the Ontario Loan Agreement of $20.0. The Ontario government loan would have become subject to interest commencing on March 28, 1997 at an annual rate of 9.25 percent. In light of the lower rates of interest that the Company could obtain through other lending sources, management decided to repay the loan in its entirety before interest expense would begin to accrue.

The pension liability of $11.3 relates to the unfunded pension obligation in Mitel Semiconductor AB which was acquired on March 29, 1996. Under applicable Swedish law, companies are not required to fund the pension obligation, but instead operate on a "pay as you go" basis. The pension obligation is actuarially determined in accordance with applicable laws and regulations in Sweden and is fully insured by a Swedish regulatory agency.

At the end of Fiscal 1997, the Company's capitalization was comprised of 17 percent debt, 9 percent preferred equity, and 74 percent common equity. This compares to the end of Fiscal 1996 when the Company's capitalization profile was 17 percent debt, 10 percent preferred equity, and 73 percent common equity.

In addition to cash and short-term investment balances of $143.3, the Company has unused lines of credit in North America and the U.K. of approximately $32.7. In accordance with Company policy, short-term investment balances are primarily comprised of high-grade money market instruments with original maturity dates of less than one year.

Management believes that the Company is in a position to meet all foreseeable business cash requirements and debt service from its cash balances on hand, existing financing facilities and cash flow from operations.

MANAGEMENT RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

Management of Mitel Corporation is responsible for the integrity of the accompanying consolidated financial statements and all other information in this Annual Report. The consolidated financial statements have been prepared by management in accordance with appropriately selected accounting principles generally accepted in Canada. Their preparation necessarily involves the use of management's best estimates and careful judgment, particularly in those circumstances where transactions affecting a current period are dependent upon future events. All financial information in the Annual Report is consistent with the consolidated financial statements.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and reliable preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through a program of internal audits, careful selection and training of personnel, and the adoption and communication of financial and other relevant policies, including a code of business conduct.

The Board of Directors discharges its responsibilities for the consolidated financial statements primarily through the activities of its Audit Committee which is composed solely of directors who are neither officers nor employees of the Company. This committee meets quarterly with management, the Company's internal auditors, and the Company's independent auditors to review performance and to discuss audit, internal control, accounting policy and financial reporting matters. The consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Directors.

The consolidated financial statements have been audited by Ernst & Young, who were appointed by the shareholders at the Annual General Meeting. Their report is presented on the following page.

DR. JOHN B. MILLARD
PRESIDENT & CHIEF EXECUTIVE OFFICER

JEAN-JACQUES CARRIER
VICE PRESIDENT OF FINANCE & CHIEF FINANCIAL OFFICER

To the Shareholders of Mitel Corporation:

We have audited the consolidated balance sheets of Mitel Corporation as at March 28, 1997 and March 29, 1996 and the consolidated statements of income and retained earnings and cash flows for each of the years in the three year period ended March 28, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 28, 1997 and March 29, 1996 and the results of its operations and the changes in its financial position for each of the years in the three year period ended March 28, 1997 in accordance with accounting principles generally accepted in Canada.

Ernst & Young.

OTTAWA, CANADA
MAY 8, 1997

ERNST & YOUNG
CHARTERED ACCOUNTANTS

MITEL CORPORATION *incorporated under the laws of Canada*

CONSOLIDATED BALANCE SHEETS

(In millions of Canadian dollars)

	March 28, 1997	March 29, 1996
ASSETS		
Current assets:		
Cash and short-term investments *(note 3)*	$ 143.3	$ 137.3
Accounts receivable *(notes 4 & 19)*	156.7	145.7
Inventories *(note 5)*	83.1	72.5
Prepaid expenses	4.2	6.7
	387.3	362.2
Capital assets:		
Fixed assets *(notes 6 & 8)*	182.2	143.7
Other assets *(notes 7 & 8)*	15.3	11.2
	$ 584.8	$ 517.1
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 124.3	$ 103.6
Income and other taxes payable	15.7	14.9
Deferred revenue	26.2	22.2
Current portion of long-term debt *(note 8)*	14.8	11.2
	181.0	151.9
Long-term debt *(note 8)*	43.0	39.6
Pension liability *(notes 18 & 22)*	11.3	12.1
Deferred income taxes	10.0	10.7
	245.3	214.3
Commitments and contingencies *(notes 9 & 10)*		
Shareholders' equity:		
Capital stock *(note 11)*		
Preferred shares	37.2	37.2
Common shares *(1997–107,414,631; 1996–106,084,494)*	153.3	150.6
Contributed surplus *(note 11)*	32.3	32.3
Retained earnings	114.2	79.4
Translation account *(note 12)*	2.5	3.3
302.3 = 37.2	339.5	302.8
	$ 584.8	$ 517.1

(See accompanying notes to the consolidated financial statements)

On behalf of the Board:

Dr. Henry Simon, *director*

Dr. John B. Millard, *director*

MITEL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(In millions of Canadian dollars, except per share amounts)

	Year ended March 28, 1997	March 29, 1996	March 31, 1995
Revenue:			
Products	$ 625.0	$ 504.8	$ 522.3
Service	70.5	71.6	67.1
	695.5	576.4	589.4
Cost of sales (excluding amortization):			
Products	297.4	246.7	275.1
Service	47.0	45.6	48.2
	344.4	292.3	323.3
Gross margin	351.1	284.1	266.1
Expenses:			
Selling and administrative	208.4	172.2	174.4
Research and development *(note 13)*	56.5	42.7	41.9
Investment tax credits related to prior years' research and development *(note 13)*	(11.7)	(7.7)	–
Restructuring and other charges *(note 14)*	13.0	–	5.0
Amortization	33.5	19.2	16.5
	299.7	226.4	237.8
Operating income	51.4	57.7	28.3
Investment and interest income *(note 15)*	9.6	10.0	5.7
Interest expense *(note 8)*	(2.4)	(1.7)	(1.2)
Income before income taxes	58.6	66.0	32.8
Income tax expense *(note 16)*	20.6	15.0	1.0
Net income	38.0	51.0	31.8
Retained earnings, beginning of year	79.4	31.7	3.4
	117.4	82.7	35.2
Dividends on preferred shares	(3.2)	(3.3)	(3.5)
Retained earnings, end of year	$ 114.2	$ 79.4	$ 31.7
Net income attributable to common shareholders after preferred share dividends	$ 34.8	$ 47.7	$ 28.3
Net income per common share *(note 17)*	$ 0.32	$ 0.45	$ 0.27

(See accompanying notes to the consolidated financial statements)

MITEL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions of Canadian dollars)

	March 28, 1997	Year ended March 29, 1996	March 31, 1995
CASH PROVIDED BY (USED IN)			
Operating activities:			
Net income	$ 38.0	$ 51.0	$ 31.8
Restructuring and other charges	5.3	–	–
Amortization	33.5	19.2	16.5
Loss (gain) on sale of capital assets and investment	(4.5)	0.2	–
Deferred income taxes	(0.2)	0.1	(0.9)
Change in pension liability	0.6	–	–
Decrease (increase) in working capital *(note 24)*	(6.6)	(0.1)	3.5
Total	66.1	70.4	50.9
Investing activities:			
Additions to capital assets	(73.9)	(34.5)	(17.2)
Proceeds from disposal of capital assets and investment	5.0	0.2	0.5
Acquisitions *(note 18)*	(5.1)	(43.5)	(1.9)
Net change in non-cash balances related to investing activities	5.4	1.0	1.4
Total	(68.6)	(76.8)	(17.2)
Financing activities:			
Increase in long-term debt	40.7	18.2	16.9
Repayment of long-term debt	(34.1)	(10.4)	(5.4)
Repurchase and redemption of preferred shares *(note 11)*	–	(1.5)	(2.3)
Dividends on preferred shares	(3.2)	(3.3)	(3.5)
Issue of common shares *(note 11)*	2.7	0.9	0.4
Net change in non-cash balances related to financing activities	0.8	–	(0.9)
Total	6.9	3.9	5.2
Effect of currency translation on cash	1.6	(1.8)	1.6
Increase (decrease) in cash and short-term investments	6.0	(4.3)	40.5
Cash and short-term investments, beginning of year	137.3	141.6	101.1
Cash and short-term investments, end of year	$ 143.3	$ 137.3	$ 141.6

(See accompanying notes to the consolidated financial statements)

(In millions of Canadian dollars, except per share amounts)

1. Nature of Operations

Mitel is an international communications products supplier. The Company's principal line of business is the manufacture and distribution of business communications systems and semiconductors, and to a lesser degree, based on revenue, the Company provides support services in respect of products sold. The principal markets for the Company's products are the United States, Europe, Canada and the Asia Pacific region.

2. Accounting Policies

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. A reconciliation of amounts presented in accordance with United States accounting principles is detailed in Note 21.

The preparation of financial statements in conformity with Canadian and United States accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

A) Fiscal Year End

The Company's fiscal year end is the last Friday in March. Normally this results in a fifty-two week year with four thirteen week quarters. For Fiscal 1995, the year-end of the Company was March 31, 1995 which resulted in a fifty-three week year.

B) Basis of Consolidation

The consolidated financial statements include the accounts of the Company and of its wholly-owned subsidiary companies. Investments in associated companies, except for joint ventures, in which the Company has significant influence are accounted for by the equity method. Investments in joint ventures are accounted for by the proportionate consolidation method.

C) Cash and Short-Term Investments

Cash and short-term investments are valued at the lower of cost or market value. The Company invests its excess cash in highly liquid low risk debt instruments with terms of usually not greater than one year.

D) Inventories

Inventories are valued at the lower of average cost and net realizable value for work-in-process and finished goods, and current replacement cost for raw materials. The cost of inventories includes material, labor and manufacturing overhead.

E) Capital Assets

Capital assets are initially recorded at cost, net of related research and development and other government assistance. Goodwill is initially recorded at the excess of the Company's cost over the amount of the fair value of the net assets acquired in a business combination. The Company evaluates the realizability of these assets based upon the expected future undiscounted cash flows of the related assets.

Amortization is provided on the bases and at the rates set out below:

Assets	Basis	Rate
Buildings	Straight-line	4%
Equipment	Declining balance	20–30%
	Straight-line	10–33.3%
Patents and trademarks	Straight-line	10–33.3%
Goodwill	Straight-line	6.7–20%

F) Foreign Currency Translation

The Company uses the current rate method of foreign currency translation to translate the accounts of its foreign subsidiaries. The resulting unrealized gains or losses are deferred and included in shareholders' equity until there is a reduction in the net investment in a foreign operation.

The Company enters into foreign exchange contracts intended to hedge its estimated net foreign currency cash requirements, and certain significant transactions, generally over the ensuing twelve

to eighteen months. The Company does not engage in a trading or speculative hedging program. All foreign exchange contracts are marked to market and the resulting gains and losses are deferred and included in the measurement of the related transactions when they occur.

Exchange gains or losses related to translation of, or settlement of, foreign currency denominated long-term monetary items are deferred and amortized on a straight-line basis over the remaining life of the items.

G) Revenue Recognition

Revenue from the sale of products is recognized at the time goods are shipped to customers. Revenue from the sale of communications systems including integration and installation services, is recognized on a percentage of completion basis. Revenue from service is recognized at the time services are rendered. Billings in advance of services are included in deferred revenue. Estimated warranty costs associated with these revenues are provided for at the time of the sale.

H) Income Taxes

Income taxes are accounted for using the deferred tax allocation method under which the income tax provision is based on the income reported in the accounts. Incentive tax credits are taken into income on the same basis as the related expenditures are charged to income provided the Company expects the credits to be realized.

I) Development Costs

The Company interprets the criteria for deferral of development costs on a very stringent basis under which few, if any, costs qualify for deferment. In the three years ended March 28, 1997, all development costs were expensed as incurred.

3. Cash and Short-Term Investments

As at March 28, 1997, the Company had $116.9 (1996–$124.3) invested in short-term investments with maturity dates between April 1, 1997 and October 27, 1997 at rates of return extending from 2.68 percent to 6.52 percent.

4. Accounts Receivable

Included in accounts receivable was an allowance for doubtful accounts of $9.8 (1996–$5.9). The allowance for doubtful accounts includes $2.1 related to the write-off of the Company's investment in a joint venture, Tianchi-Mitel Telecommunications Corporation, which is included in the restructuring and other charges. *(See also note 14.)* Also included in accounts receivable was an amount of $16.6 (1996–$6.9) for unbilled accounts on long-term contracts.

The Company is exposed to normal credit risk from customers. However, the Company's orientation is global with a large number of diverse customers to minimize concentrations of credit risk. *(See also note 19.)*

5. Inventories

	1997	1996
Raw materials	$ 29.4	$ 21.9
Work-in-process	26.9	22.6
Finished goods	26.8	28.0
	$ 83.1	$ 72.5

6. Fixed Assets

	1997	1996
Cost:		
Land	$ 4.5	$ 5.4
Buildings	127.6	113.8
Equipment	207.8	185.6
Equipment under capital leases	79.9	45.5
	419.8	350.3
Less accumulated amortization:		
Buildings	65.7	60.7
Equipment	148.6	131.5
Equipment under capital leases	23.3	14.4
	237.6	206.6
	$ 182.2	$ 143.7

7. Other Assets

	1997	1996
Cost:		
Assets held for resale	$ 7.4	$ 7.4
Goodwill	4.7	1.3
Patent, trademarks, and other	10.6	7.9
	22.7	16.6
Less accumulated amortization:		
Goodwill	1.4	0.2
Patents, trademarks, and other	6.0	5.2
	7.4	5.4
	$ 15.3	$ 11.2

Assets held for resale include surplus land in Kanata and a building in Boca Raton. The Boca Raton facility was leased to a tenant for a term from March 1, 1994 to November 1, 1998. As per the terms of the lease, the tenant's option to purchase the facility expired on March 1, 1997. On April 21, 1997, the Company signed a letter of intent to sell the Boca Raton facility. The net cash proceeds would be approximately $6.2 for this sale. Management does not expect the sale to have a significant impact on the results of operations.

During the fourth quarter, the Company recorded a write-off of $1.0 for the unamortized balance of goodwill related to the investment in a joint venture in China, Tianchi-Mitel Telecommunications Corporation. *(See also note 14.)*

8. Long-term Debt

	1997	1996
Capital leases and other, at rates varying from 3.4% to 12.2% with payment terms ranging from 3 to 5 years	$ 51.6	$ 23.5
Florida industrial revenue and development bonds, at a rate of 8.375%, due in April 2001 and against which certain assets held for resale have been pledged as security *(1997–U.S. $3.0; 1996–U.S. $3.1)*	4.1	4.2
Non-interest bearing 1996 Canada-Quebec government loan, repayable in three equal annual installments commencing July, 2001	2.1	–
Ontario government loan, at a rate of 9.25%, repaid on March 21, 1997	–	20.0
Non-interest bearing unsecured note payable, discounted at a rate of 8.75%, due in equal annual installments of U.S. $1.4, repaid during Fiscal 1997 *(1996–U.S. $1.3)*	–	1.8
Non-interest bearing 1990 Canada-Quebec government loan, repaid during Fiscal 1997	–	1.3
	57.8	50.8
Less current portion	14.8	11.2
	$ 43.0	$ 39.6

Future minimum lease payments of the obligations under capital leases total $59.1 of which $17.9, $15.2, $11.2, $8.4, and $6.4 relate to fiscal years 1998 to 2002 and thereafter respectively. Interest costs of $8.0 are included in the total future lease payments.

Principal repayments, excluding obligations under capital leases, during the next five fiscal years are: 1998–$0.2; 1999–$0.2; 2000–$0.2; 2001–$0.3; 2002–$4.1. Interest expense related to long-term debt was $2.3 in Fiscal 1997 (1996–$1.7; 1995–$1.1).

The following table presents financial instrument fair value disclosure where the carrying value of such is different. Fair value was determined by discounting cash flows of the obligations at 7.0 percent (1996–8.0 percent), the rate determined as generally available to the Company on credit facilities at the fiscal year-end:

	1997		1996	
	Carrying amount	Fair value	Carrying amount	Fair value
Capital leases and other	$ 51.6	$ 44.9	$ 23.5	$ 20.5
Florida industrial revenue and development bonds	$ 4.1	$ 4.3	$ 4.2	$ 4.4
Non-interest bearing 1996 Canada-Quebec government loan	$ 2.1	$ 1.5	$ –	$ –
Ontario government loan	$ –	$ –	$ 20.0	$ 15.1
Non-interest bearing unsecured note payable	$ –	$ –	$ 1.8	$ 1.8
Non-interest bearing 1990 Canada-Quebec government loan	$ –	$ –	$ 1.3	$ 1.1

9. Commitments

A) Operating Leases

The future minimum lease payments for operating leases for which the Company was committed as at March 28, 1997 were as follows: 1998–$10.8; 1999–$8.2; 2000–$4.0; 2001–$2.3; 2002–$2.0; 2003 and beyond–$12.9.

B) Letters of Credit

The Company had letters of credit outstanding as at March 28, 1997 of approximately $7.0 to secure accounts payable primarily relating to the purchase of inventory.

C) Capital Expenditures

Capital expenditure commitments under purchase orders outstanding at the end of Fiscal 1997 amounted to approximately $3.0.

10. Contingencies

The Company is a defendant in a number of lawsuits and party to a number of other claims or potential claims that have arisen in the normal course of its business. In the opinion of the Company's legal counsel, any monetary liability or financial impact of such lawsuits and claims or potential claims to which the Company might be subject after final adjudication would not be material to the consolidated financial position of the Company or the consolidated results of its operations. *(See also note 13.)*

11. Capital Stock

The Company's authorized capital stock consists of an unlimited number of preferred and common shares.

Shares outstanding	1997	1996
Preferred shares–R&D series	1,616,500	1,618,900
Common shares	107,414,631	106,084,494

A) Preferred Shares—R&D Series

The preferred shares were issued in Fiscal 1984 for gross cash proceeds of $95.2 of which $51.5 ($23.00 per share) was allocated to capital stock with the balance being the consideration received for the sale of tax rights.

Dividends Fixed cumulative cash dividends are payable quarterly at a rate of $2.00 per share per annum.

Redemption The shares are currently redeemable, at the option of the Company, at $25.00 per share plus accrued dividends.

Purchase Obligation Commencing January 1, 1989, the Company was required to make reasonable efforts to purchase 22,400 shares in each calendar quarter at a price not exceeding $25.00 per share plus costs of purchase, and this obligation has been met. The difference between the stated capital of the repurchased shares over the consideration paid for such shares is recorded against contributed surplus.

B) Common Shares

An analysis of the changes in the number of common shares and the amount of share capital for the three years ended March 28, 1997 is as follows:

	Number	Amount
Balance, March 25, 1994	105,516,144	$ 149.3
Issued for cash–		
Employee stock option plans	260,474	0.4
Balance, March 31, 1995	105,776,618	149.7
Employee stock option plans	307,876	0.9
Balance, March 29, 1996	106,084,494	150.6
Warrants	1,000,000	1.7
Employee stock option plans	330,137	1.0
Balance, March 28, 1997	107,414,631	$ 153.3

The warrants exercised in Fiscal 1997 represent all of the warrants then outstanding to reduce outstanding warrants to nil as at March 28, 1997 (1996–1,000,000).

C) Dividend Restrictions on Common Shares

The Company may not declare cash dividends on its common shares unless dividends on the preferred shares have been declared and paid, or set aside for payment.

D) Stock Option Plans

At the Company's 1991 Annual General Meeting, the shareholders approved resolutions authorizing stock options for key employees and non-employee directors. Certain amendments to the plan were approved by the shareholders at the 1993 and 1995 Annual General Meetings allowing for 1,000,000 and 2,000,000 additional shares, respectively, to be made available for grant. Available for grant at March 28, 1997 were 1,113,525 (1996–1,779,775; 1995–268,625) shares. All options granted have ten year terms and become fully exercisable at the end of four years of continuous employment.

A summary of the Company's stock option activity and related information for the two years ended March 28, 1997 is as follows:

	1997		1996	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding options:				
Balance, beginning of year	2,902,525	$ 4.54	2,721,551	$ 3.74
Granted	713,500	9.23	610,500	7.52
Exercised	(330,137)	2.95	(307,876)	2.97
Cancelled	(47,250)	6.06	(121,650)	5.62
Balance, end of year	3,238,638	$ 5.71	2,902,525	$ 4.54
Exercisable at end of year	1,580,776	$ 3.75	1,229,775	$ 2.95
Weighted average fair value price of options granted during the year using the Black-Scholes fair value option pricing model *(see also note 21)*		$ 4.54		$ 3.90

A summary of options outstanding at March 28, 1997 is as follows:

Total outstanding				Total exercisable	
Options	Exercise price	Weighted average exercise price	Weighted average remaining contractual life	Options	Weighted Average Exercise Price
913,975	$1.10–$2.82	$ 1.90	6 years	896,475	$ 1.88
710,850	$3.90–$5.75	$ 5.10	7 years	308,925	$ 5.09
1,613,813	$6.25–$9.32	$ 8.14	8 years	375,376	$ 7.12
3,238,638				1,580,776	

12. Translation Account

The following table summarizes changes in the translation account:

	1997	1996	1995
Balance, beginning of year	$ 3.3	$ 10.6	$ 5.7
Increase (decrease):			
Movements in exchange rates–			
United States Dollar	–	(1.4)	0.7
United Kingdom Pound Sterling	5.4	(6.0)	5.9
Swedish Krona	(4.4)	–	–
Other currencies	–	0.1	–
Reduction of net investments in subsidiaries	(1.8)	–	(1.7)
Balance, end of year	$ 2.5	$ 3.3	$ 10.6

13. Government Assistance and Investment Tax Credits

During the year, the Company recognized total funding of $0.2 (1996–$0.3; 1995–$0.6) related to eligible R&D expenditures (1997–$0.6; 1996–$1.0; 1995–$2.9) which was recorded as a reduction primarily of research and development expenses in the consolidated statements of income.

During the year, the Company also recognized Canadian investment tax credits of $11.7 (1996–$7.7; 1995–nil) related to prior years' R&D expenses for which no accounting benefit was previously recognized. *(See also note 16.)*

Contributions of $5.0 made to the Company in prior years under the Microelectronics and System Development Program, a federal assistance program, are contingently repayable if the resulting technology is commercially successful. The contributions are repayable based on a percentage of related sales over a period not to exceed ten years and ending on June 30, 2004. Any amount unpaid at the end of the ten year period would be forgiven. As the technology is in the early stages of being commercially exploited, the total amounts repaid and repayable to March 28, 1997 were negligible.

The Company is contingently liable for the repayment of funding received in prior years if certain conditions are not met to a maximum of $2.9. The Company believes that it is in compliance with these conditions.

14. Restructuring and Other Charges

During the fourth quarter of Fiscal 1997, the Company recorded a charge of $13.0 comprising $8.0 in respect of a restructuring program to reduce operating expenses in Business Communications Systems and a write-off of $5.0 on the investment and related assets in the Company's joint venture in China. As at March 28, 1997, the balance of the restructuring provision included in accounts payable and accrued liabilities amounted to $7.7.

In Fiscal 1995, the Company recorded a charge of $5.0 in respect of restructuring its Business Communications Systems sales operations in Italy and Germany which was substantially completed in that year.

15. Investment and Interest Income

On September 27, 1996, the Company sold its equity interest in Esprit Telecom (Jersey) Ltd. (Esprit), a non-strategic holding which was carried at a nominal cost. The gain on the sale of shares in Esprit was $3.6.

Interest income earned on cash and short-term investments in Fiscal 1997 was $6.0 (1996–$10.0; 1995–$5.7).

16. Income Taxes

Details of income tax expense (recovery) were as follows:

	1997	1996	1995
Current			
Canadian	$ 14.9	$ 9.3	$ 1.0
Foreign	7.0	5.6	0.9
Deferred			
Foreign	(1.3)	0.1	(0.9)
	$ 20.6	$ 15.0	$ 1.0

Deferred taxes on income generally result from timing differences primarily in the recognition of amortization and research and development expenditures for tax and financial reporting purposes.

The income tax expense reported differs from the amount computed by applying the Canadian rates to the income before income taxes. The reasons for these differences and their tax effects were as follows:

	1997	1996	1995
Expected tax rate	40%	40%	40%
Expected tax expense	$ 23.4	$ 26.4	$ 13.1
Foreign tax rate differences	(2.2)	(0.8)	(0.1)
Tax effect of losses not recognized	8.7	2.5	3.3
Tax effect of realizing benefit of prior years' operating loss carryforwards	(13.9)	(15.7)	(17.3)
Corporate minimum taxes	3.2	2.4	1.5
Other	1.4	0.2	0.5
Income tax expense	$ 20.6	$ 15.0	$ 1.0

Unremitted earnings of subsidiaries subject to withholding taxes will be indefinitely reinvested with no provision necessary for potential withholding taxes on repatriation of subsidiary earnings. The income (loss) before income taxes attributable to all foreign operations was $6.1 (1996–$15.7; 1995–$(2.9)).

As at March 28, 1997, the Company had tax loss carryforwards of approximately $100.0 for which no accounting benefit was recognized and which are available to reduce future years' income for tax purposes. These tax loss carryforwards expire as follows: 2002 –$6.0; 2003–$16.0; 2004–$6.9; 2005 to 2012–$71.1. The tax loss carryforwards relate to operations in the United States, Germany and Hong Kong. As at March 28, 1997, the Company had Canadian investment tax credit carryforwards of approximately $60.0 for which no accounting benefit was recognized and which are available to reduce future years' income taxes. These investment tax credits expire during the years from 1998 to 2007. In addition, the Company had timing differences of approximately $32.0 for which no accounting benefit was recognized.

17. Net Income per Common share

The net income per common share figures were calculated based on net income after the deduction of preferred share dividends and using the weighted monthly average number of shares outstanding during the respective fiscal years (107,274,463 shares in 1997; 105,920,369 shares in 1996; and 105,622,984 shares in 1995).

18. Acquisitions

(A) On January 31, 1997, the Company acquired the business and assets of Global Village Communication (U.K.) Limited, an ISDN solution provider based in the United Kingdom, for cash consideration of $5.1. In addition, the Company recorded a liability of $0.2 in respect of acquisition costs and recorded a provision of $0.5 in respect of estimated costs to integrate the operations of the acquired business with the existing U.K. division, Mitel Telecom Limited, over the next twelve months.

This acquisition was accounted for by application of the purchase method under which the results from operations were included in the Company's accounts from the date of acquisition. The difference between the purchase price and the fair value of the acquired net assets amounted to $3.3, all of which was recorded as goodwill to be amortized on a straight-line basis over the next five years.

The purchase transaction is summarized as follows:

Net assets acquired, at approximate fair value:	
Current assets	$ 3.1
Capital assets	1.0
Goodwill	3.3
Total assets	7.4
Current liabilities	2.3
Total net assets	$ 5.1
Cash consideration	$ 5.1

Pro Forma financial information for the acquisition as if the business had been acquired at the beginning of Fiscal 1997 is not presented due to the insignificant impact on the Company's results of operations.

(B) On March 29, 1996, the Company acquired ABB Hafo AB (subsequently renamed Mitel Semiconductor AB), a designer, manufacturer and marketer of custom and application specific integrated circuits and semiconductor components with operations based in Sweden and the United States. Mitel Semiconductor AB was acquired for cash consideration of $44.0, comprised of $24.0 for 100 percent of the outstanding common shares and $20.0 for the repayment of all bank loans in the acquired company. This acquisition was accounted for by application of the purchase method under which the results from operations were included in the Company's accounts from the date of acquisition.

The purchase transaction is summarized as follows:

Net assets acquired, at approximate fair value:	
Current assets	$ 28.0
Capital assets	48.2
Total assets	76.2
Current liabilities	13.9
Pension liability	12.1
Deferred income taxes	6.2
Total liabilities	32.2
Total net assets	$ 44.0
Cash consideration	$ 44.0

In addition to the cash consideration, the Company incurred expenses of $1.7 in respect of acquisition costs and $2.0 in respect of costs to integrate the operations of the acquired company with the Semiconductor division. As at March 28, 1997, the liability in respect of acquisition costs was nil and $1.3 in respect of estimated integration costs.

(C) On April 12, 1994, the Company completed the acquisition of its 50 percent investment in Tianchi-Mitel Telecommunications Corporation, a telecommunications manufacturing, sales and service joint venture in Tianjin, China, for a total cash investment of $3.3. The acquisition was accounted for by the purchase method. Accordingly, the Company's share in the joint venture's results from operations were included in the consolidated financial statements of the Company from the date of acquisition, April 12, 1994. *(See also note 14.)*

19. Related Party Transactions

During the year ended March 28, 1997, the Company sold to jointly controlled and significantly influenced enterprises product and services valued at approximately $8.1 (1996–$7.9; 1995–$7.1).

Included in accounts receivable as at March 28, 1997 were amounts due from jointly controlled and significantly influenced enterprises of $0.4 (1996–$1.5; 1995–$1.3).

20. Information on Geographic Segments

The Company operates primarily as a vertically integrated manufacturer of voice communications products which is its principal line of business. Included in total revenue for Canada were export sales amounting to $244.9 in Fiscal 1997 (1996–$197.7; 1995–$178.7). The point of origin (the location of the selling organization) of revenue and the location of the assets determine the geographic areas.

	1997	1996	1995
Revenue:			
Canada			
External customers	$ 113.4	$ 98.6	$ 91.5
Transfers between geographic areas	181.5	145.3	137.6
	294.9	243.9	229.1
United States			
External customers	312.9	271.5	309.5
Transfers between geographic areas	19.4	14.1	15.8
	332.3	285.6	325.3
Europe			
External customers	248.0	183.3	164.5
Transfers between geographic areas	32.4	19.2	20.4
	280.4	202.5	184.9
Other			
External customers	21.2	23.0	23.9
Transfers between geographic areas	–	–	–
	21.2	23.0	23.9
Eliminations of transfers between geographic areas	(233.3)	(178.6)	(173.8)
Total revenue	$ 695.5	$ 576.4	$ 589.4

	1997	1996	1995
Operating income:			
Canada	$ 53.7	$ 58.8	$ 49.9
United States	35.7	37.8	47.7
Europe	40.9	35.0	12.0
Other	15.7	3.2	4.6
Eliminations	(10.2)	(5.0)	(9.3)
Segment operating income	135.8	129.8	104.9
Corporate expenses	84.4	72.1	76.6
Operating income	51.4	57.7	28.3
Investment and interest income, net of interest expense	7.2	8.3	4.5
Income tax expense	(20.6)	(15.0)	(1.0)
Net income	$ 38.0	$ 51.0	$ 31.8
Fixed asset additions:			
Canada	$ 56.9	$ 26.9	$ 12.1
United States	3.5	2.3	1.7
Europe	13.2	4.4	3.4
Other	0.1	0.9	–
Fixed asset additions	$ 73.7	$ 34.5	$ 17.2
Amortization expense:			
Canada	$ 17.9	$ 13.4	$ 11.0
United States	2.4	1.6	1.3
Europe	12.9	4.1	4.1
Other	0.3	0.1	0.1
Amortization expense	$ 33.5	$ 19.2	$ 16.5
Identifiable assets:			
Canada	$ 187.4	$ 136.5	$ 115.2
United States	96.7	82.8	92.1
Europe	194.9	198.1	112.9
Other	6.8	11.5	14.0
Identifiable assets	485.8	428.9	334.2
Corporate assets	99.0	88.2	106.4
Total assets	$ 584.8	$ 517.1	$ 440.6

In line with industry practice, corporate expenses include research and development, scientific research agreement revenue, and general administration expenses. Interest and income taxes are excluded from the calculation of segment operating income.

Transfers between areas are made at prices based on the total cost of the product to the selling location.

21. United States Accounting Principles

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP) which, in the case of the Company, conform in all material respects with those in the United States (U.S. GAAP) and with the requirements of the Securities and Exchange Commission (SEC), except as follows:

(A) Under the terms of an R&D contract with British Telecommunications plc (BT), the Company was required to pay BT levies based on defined incremental sales of SX2000 products. These levies were payable until the earlier of March 31, 1995 or until the amounts paid to BT reached a specified maximum.

Under Canadian GAAP, amounts earned for work performed under the R&D contract with BT were offset against the related costs incurred. Amounts earned for work performed pursuant to such contracts among parties who were related at the time the arrangement was entered into were accounted for as a liability under interpretation of U.S. GAAP by the staff of the SEC. Although BT ceased to be related to the Company on June 12, 1992, the R&D contract with BT was entered into while BT was the majority owner of the Company.

Under Canadian GAAP, levies payable to BT pursuant to the contract terms were accounted for as an expense. They were accounted for as a payment against the liability under interpretations of U.S. GAAP by the staff of the SEC.

On March 31, 1995, the requirement to pay levies to BT expired pursuant to the terms of the contract. Accordingly, the remaining unpaid amount in respect of the R&D contract of $23.7 as at March 31, 1995 was accounted for as an extinguishment of debt and recognized in income under U.S. GAAP for the year ended March 31, 1995.

(B) Under Canadian GAAP, unrealized and realized gains and losses on foreign currency transactions identified as hedges may be deferred as long as there is reasonable assurance that the hedge will be effective. Under U.S. GAAP, deferral is allowed only on foreign currency transactions intended to hedge identifiable firm foreign currency commitments.

(C) Under Canadian GAAP, investments in joint ventures are recognized in the financial statements of the venturer by applying the proportionate consolidation method of accounting. Under U.S. GAAP, equity accounting is applied to investments in joint ventures when preparing the consolidated financial statements of the venturer.

(D) Under Canadian GAAP, stock issue costs are shown as an adjustment to retained earnings. The carrying amount of capital stock is shown net of issue costs under U.S. GAAP.

(E) Redeemable preferred shares are excluded from shareholders' equity under requirements of the SEC.

(F) Reductions in stated capital and deficit are not recorded under U.S. GAAP. The Company had previously undertaken stated capital and deficit reductions in fiscal years 1985, 1986, 1987 and 1992.

(G) Under U.S. GAAP, primary and fully diluted earnings per share are computed in accordance with the treasury stock method and are based on the weighted average number of common shares and dilutive common share equivalents.

(H) Under Canadian GAAP, for purposes of the statements of cash flows, cash position includes all short-term investments. Under U.S. GAAP, cash position includes highly liquid investments with original maturities of less than three months. In addition, under U.S. GAAP, non-cash items such as assets acquired under capital lease are excluded from the statements of cash flows. Under Canadian GAAP, the gross amount of non-cash items are included in the respective operating, investing, or financing activities as applicable.

(I) The Company implemented SFAS 109, Accounting for Income Taxes, in Fiscal 1994 for purposes of reconciliation to U.S. GAAP. As at March 28, 1997, the Company's deferred tax asset, primarily related to the benefit of realizing investment tax credit and loss

carryforwards and timing differences, net of a valuation allowance of $123.1 (1996–$135.3), was $10.2 (1996–nil), and deferred tax liabilities, primarily related to buildings and equipment, were $10.0 (1996–$10.7).

(J) Management has examined the rules applicable to SFAS 119 regarding the disclosure of derivative financial instruments and the fair value of financial instruments and has provided the required disclosure in notes 7, 8, 21, 22, and 23.

(K) The United States Financial Accounting Standards Board has issued a new standard (SFAS 128) regarding the calculation of earnings per share. SFAS 128 is effective for annual periods ending after December 15, 1997. The Company has not determined the impact, if any, of SFAS 128 on its consolidated financial statements.

(L) The United States Financial Accounting Standards Board has issued a new standard (SFAS 123) for accounting for stock-based compensation. As allowed under SFAS 123, Management has determined that it will continue to apply Accounting Principles Board Opinion No. 25 (APB 25), in accounting for its employee stock options for purposes of reconciliation to U.S. GAAP because the alternative fair value accounting provided for under SFAS 123 requires the use of option valuation models that were not developed for use in valuing employee stock options. In accordance with Company policy, the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant. Accordingly, under the rules of APB 25, no related compensation expense was recorded in the Company's results of operations for U.S. GAAP purposes.

The following table reconciles the net income as reported on the consolidated statements of income to the net income that would have been reported had the financial statements been prepared in accordance with U.S. GAAP and the requirements of the SEC. The proportionate consolidation method for joint ventures does not affect the measurement of income or shareholders' equity and therefore is not addressed in the following table:

	1997	1996	1995
Net income in accordance with Canadian GAAP	$ 38.0	$ 51.0	$ 31.8
Effect of research and development contract	–	–	4.4
Income recognized under research and development contract *(see part A)*	–	–	23.7
Effect of deferral accounting related to foreign exchange contracts	(7.2)	5.9	(0.9)
Adjustment to deferred income taxes	10.2	–	–
U.S. GAAP and SEC requirements:			
Net income	$ 41.0	$ 56.9	$ 59.0
Net income for the year attributable to common shareholders after preferred share dividends	$ 37.8	$ 53.6	$ 55.5
Net income per common share	$ 0.35	$ 0.50	$ 0.52

The weighted average number of common shares and common share equivalents outstanding pursuant to U.S. GAAP in Fiscal 1997 was 108,472,457 (1996–107,883,043; 1995–107,221,144).

	1997	1996	1995
Cash flow information presented in conformity in all material respects with U.S. GAAP:			
Cash provided by (used in)			
Operating activities–Canadian GAAP	$ 66.1	$ 70.4	$ 50.9
Deferred income taxes	10.2	–	–
Change in deferred tax asset	(10.2)	–	–
Operating activities–U.S. GAAP	66.1	70.4	50.9
Investing activities–Canadian GAAP	(68.6)	(76.8)	(17.2)
Change in short-term investments	(2.9)	(6.3)	(39.6)
Additions to capital assets under capital lease	31.3	16.3	6.6
Investing activities–U.S. GAAP	(40.2)	(66.8)	(50.2)
Financing activities–Canadian GAAP	6.9	3.9	5.2
Increase in capital leases	(31.3)	(16.3)	(6.6)
Financing activities–U.S. GAAP	(24.4)	(12.4)	(1.4)
Increase (decrease) in cash	1.5	(8.8)	(0.7)
Effect of currency translation on cash flows	1.6	(1.8)	1.6
Cash position, beginning of year	52.4	63.0	62.1
Cash position, end of year	$ 55.5	$ 52.4	$ 63.0

	1997	1996
Balance sheet items in conformity in all material respects with U.S. GAAP and SEC requirements:		
Cash	$ 55.5	$ 52.4
Short-term investments	87.8	84.9
Deferred tax asset	10.2	–
Accounts payable and accrued liabilities	128.3	100.4
Redeemable preferred shares	34.4	34.4
Common shares	599.2	596.5
Contributed surplus	2.5	2.5
Deficit	(292.9)	(330.7)

339.5 143.3 20.2 (10.0) 124.3 4 308.8 344+2.8-37.2 -6.5

Pro Forma financial information required by SFAS 123 has been determined as if the Company had accounted for its employee stock options using the Black-Scholes fair value option pricing model with the following weighted-average assumptions for fiscal years 1996 and 1997:

	1997	1996
Risk-free interest rate	5.45%	7.02%
Dividend yield	nil	nil
Volatility factor of the expected market price of the Company's common stock	0.565	0.593
Weighted-average expected life of the options	6 years	6 years

	1997	1996
Pro Forma net income for U.S. GAAP	$ 39.8	$ 56.5
Pro Forma net income per common share		
Primary	$ 0.34	$ 0.49
Fully diluted	$ 0.34	$ 0.49

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of Pro Forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period on a straight-line basis. *(See also note 11.)*

22. Pension Plans

The Company maintains several defined contribution and two defined benefit pension plans for its employees. Pension expense was $4.8 in Fiscal 1997 (1996–$3.3; 1995–$3.7).

A) Defined Contribution Pension Plans

Both the Company and the employees contribute to these plans based on the employees' earnings.

B) Defined Benefit Pension Plans

The Company's policy is to fund defined benefit pension plans in accordance with independent actuarial valuations and as permitted by pension regulatory authorities.

(i) The first defined benefit plan is contributory and covers substantially all employees in the United Kingdom by providing pension benefits based on length of service and final pensionable earnings. Employee contributions are based on pensionable earnings. Actuarial reports in connection with the U.K. defined benefit plan, prepared in April, 1995 and updated to March 28, 1997, were based on projections of employees' compensation levels to the time of retirement. These actuarial reports indicate that the actuarial present value of the accrued pension benefits and the net assets available to provide for these benefits, at market value, were as follows:

	1997	1996
Pension fund assets	$ 53.5	$ 39.3
Accrued pension benefits	$ 48.2	$ 38.1

The assumptions used to develop the actuarial present value of the accrued pension benefits for Fiscal 1997 and Fiscal 1996 were as follows:

Discount rate	8.5%
Compensation increase rate	6.5%
Investment return assumption	9.0%

For purposes of an actuarial valuation, pension fund assets were valued using the discounted income method. Under this approach, the value of the assets is obtained by estimating the receipts which will arise in the future from the plan's investments and then discounting the amounts to the valuation date, at the valuation rate of return on assets.

(ii) The second defined benefit plan covers all employees over the age of twenty-eight in Sweden and provides pension benefits based on length of service and final pensionable earnings. There are no pension fund assets under the plan. The associated pension liability is calculated each year by the Pension Registration Institute and is credit insured in its entirety by Forsakringsbolaget Pensionsagaranti. The pension liability of $11.3 (62.6 SEK) (1996–$12.1 (59.4 SEK)) was actuarially determined based on the present value of the accrued future pension benefits and in accordance with the applicable laws and regulations in Sweden.

23. Foreign Exchange Contracts

At March 28, 1997, foreign currency exchange contracts to sell $162.0 in foreign currency ($126.0 U.S. Dollars, 2.0 Pounds Sterling, 50.0 Japanese Yen, 38.0 Swedish Krona and 1.0 Singapore Dollars) had an unrealized loss of $3.9. The unrealized loss represents a point-in-time estimate that may not be relevant in predicting the Company's future earnings or cash flows. The unrealized loss reflects the estimated amount that the Company would have been required to pay if forced to settle all outstanding contracts on March 28, 1997.

Mitel is exposed to credit risk in the event of non-performance, but does not anticipate non-performance by any of the counter parties. Management believes that there is no substantial concentration of credit risk resulting from the foreign currency forward contracts.

24. Cash Flow Information

	1997	1996	1995
Net change in non-cash working capital balances related to operating activities:			
Accounts receivable	$ (9.8)	$ (7.0)	$ (21.3)
Inventories	(11.6)	9.0	9.8
Accounts payable and accrued liabilities	10.3	1.4	6.2
Deferred revenue	2.9	(0.7)	10.2
Other	1.6	(2.8)	(1.4)
	$ (6.6)	$ (0.1)	$ 3.5

25. Unused Bank Lines of Credit

At March 28, 1997, the Company had unused and available demand bank lines of credit amounting to approximately $32.7 (1996–$31.9) at rates of interest based on the London Inter-Bank Offer Rate (LIBOR) (6.5%), Canadian prime (4.75%), and U.K. base rate (7.0%).

26. Comparative Figures

Certain of the 1996 and 1995 comparative figures have been reclassified so as to conform to the presentation adopted in 1997.

(In millions of Canadian dollars, except per share amounts)

The following table is derived from the consolidated financial statements included elsewhere herein, which have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP). These principles also conform, in all material respects, with accounting principles generally accepted in the United States (U.S. GAAP), and the requirements of the SEC, except as more fully described in Note 21 to the consolidated financial statements.

	Fiscal year (at the end of fiscal year for balance sheet data)				
	1997	1996	1995	1994	1993
CANADIAN GAAP					
Income Statement Data:					
Revenue	$ 695.5	$ 576.4	$ 589.4	$ 496.4	$ 423.4
Gross margin percentage	50%	49%	45%	44%	46%
Gross research and development expense	61.5	46.5	44.9	37.1	39.2
Operating income (loss)	51.4	57.7	28.3	22.0	(1.0)
Net income	38.0	51.0	31.8	20.7	2.6
Net income (loss) per common share	0.32	0.45	0.27	0.16	(0.01)
Weighted average common shares outstanding (millions)	107.3	105.9	105.6	105.1	80.2
Balance Sheet Data:					
Working capital	$ 206.3	$ 210.3	$ 208.4	$ 174.2	$ 139.4
Total assets	584.8	517.1	440.6	376.4	323.4
Current portion of long-term debt	14.8	11.2	9.0	3.9	2.8
Long-term debt	43.0	39.6	34.5	27.8	23.2
Pension liability	11.3	12.1	–	–	–
Shareholders' equity (including redeemable preferred shares)	339.5	302.8	263.0	231.7	204.3
U.S. GAAP AND SEC REQUIREMENTS					
Income Statement Data:					
Net income	$ 41.0	$ 56.9	$ 59.0	$ 18.4	$ 9.6
Net income per common share	0.35	0.50	0.52	0.14	0.07
Weighted average common shares and share equivalents outstanding (millions)	108.5	107.9	107.2	107.2	81.1
Balance Sheet Data:					
Working capital	$ 208.4	$ 213.5	$ 205.8	$ 172.4	$ 143.5
Total assets	595.0	517.1	440.6	376.4	323.4
Current portion of long-term debt	14.8	11.2	9.0	3.9	2.8
Long-term debt	43.0	39.6	34.5	27.8	23.2
Long-term obligation under research and development contract	–	–	–	28.1	31.7
Pension liability	11.3	12.1	–	–	–
Redeemable preferred shares	34.4	34.4	35.8	37.8	39.8
Shareholders' equity					
Common shares	599.2	596.5	595.6	595.2	593.9
Contributed surplus	2.5	2.5	2.6	2.7	2.7
Deficit	(292.9)	(330.7)	(384.3)	(439.6)	(454.5)
Translation account	2.5	3.3	10.6	5.7	(5.3)

(In millions of Canadian dollars, except per share amounts; unaudited)

Selected Quarterly Financial Data

(In accordance with Canadian generally accepted accounting principles)

FISCAL 1997	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Revenue	$ 155.9	$ 167.5	$ 173.1	$ 199.0	$ 695.5
Gross margin	$ 79.4	$ 85.0	$ 88.7	$ 98.0	$ 351.1
Gross margin percentage	51%	51%	51%	49%	50%
Net income (loss)	$ 10.7	$ 16.5	$ 11.5	$ (0.7)	$ 38.0
Net income (loss) per common share	$ 0.09	$ 0.15	$ 0.10	$ (0.01)	$ 0.32

Certain Fiscal 1997 quarterly figures were reclassified with no effect on the reported quarterly net income.

FISCAL 1997	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Revenue	$ 136.2	$ 149.5	$ 125.7	$ 165.0	$ 576.4
Gross margin	$ 63.8	$ 73.4	$ 64.6	$ 82.3	$ 284.1
Gross margin percentage	47%	49%	51%	50%	49%
Net income	$ 9.6	$ 15.0	$ 11.2	$ 15.2	$ 51.0
Net income per common share	$ 0.08	$ 0.13	$ 0.10	$ 0.14	$ 0.45

Exchange Rates of the Canadian Dollar

(Based on noon buying rates)

The high and low exchange rates (i.e., the highest and lowest rates at which Canadian dollars were sold), the average exchange rate (i.e., the average of the exchange rates on the last day of each month during the period) and the period end exchange rates of the Canadian dollar in exchange for U.S. currency for each of the five years ended December 31, 1996 and for the period January 1, 1997 through May 8, 1997, as reported by the Federal Reserve Bank of New York, were as follows:

US DOLLARS	January 1 to May 8, 1997	1996	1995	1994	1993	1992
High	0.7487	0.7513	0.7527	0.7632	0.8046	0.8757
Low	0.7145	0.7235	0.7023	0.7103	0.7439	0.7761
Average	0.7296	0.7332	0.7286	0.7318	0.7751	0.8275
Period End	0.7228	0.7301	0.7323	0.7128	0.7544	0.7865

Principal Markets

The Toronto Stock Exchange and the New York Stock Exchange are the principal markets on which the Company's shares are traded. The shares are also listed on the Montreal and London Stock Exchanges. The Company's shares were first listed on the Toronto Stock Exchange on August 13, 1979 and on the New York Stock Exchange on May 18, 1981. The stock symbol of the Company's shares is MLT. The following table sets forth the high and low sales prices for the common shares for each quarter of the last two fiscal years.

THE TORONTO STOCK EXCHANGE
(Canadian dollars)

	1997		1996	
	High	Low	High	Low
1st Quarter	$ 10.000	$ 8.300	$ 7.500	$ 6.125
2nd Quarter	9.600	7.750	8.375	6.625
3rd Quarter	9.650	8.500	9.500	6.625
4th Quarter	10.850	6.750	9.000	7.125

NEW YORK STOCK EXCHANGE
(U.S. dollars)

	1997		1996	
	High	Low	High	Low
1st Quarter	$ 7.375	$ 6.125	$ 5.500	$ 4.500
2nd Quarter	6.875	5.750	6.125	4.875
3rd Quarter	7.250	6.250	6.875	4.875
4th Quarter	8.125	4.625	6.625	5.125

Shareholders

There were 5,774 common shareholders of record as at May 8, 1997.

Dividend Policy

The Company has not declared or paid any dividends on its common shares and the Board of Directors anticipates that, with the exception of preferred share dividend requirements, all available funds will be applied in the foreseeable future to finance growth, and to improve the Company's competitive position and profitability.

Pursuant to the terms of the $2.00 Cumulative Redeemable Convertible Preferred Shares, 1983 R&D Series (Preferred Shares — R&D Series), the Company will not be permitted to pay any dividends on common shares unless all dividends accrued on the preferred shares have been declared and paid or set apart for payment.

Dividends paid by the Company to common shareholders not resident in Canada would generally be subject to Canadian withholding tax at the rate of 25 percent or such lower rate as may be provided under applicable tax treaties. Under the Canada-United States tax treaty, the rate of withholding tax applicable to such dividends paid to residents of the United States would generally be 15 percent.

Board of Directors

Dr. Henry Simon
Chairman of the Board
Chairman, Schroder Ventures Life Sciences Advisers

Hubert T. Lacroix
Partner
McCarthy Tétrault
Barristers & Solicitors

Paul G. Vien
President
St. James Financial Corporation Inc.

Dr. John B. Millard
President & Chief Executive Officer

Donald W. Paterson
President
Cavandale Corporation

Jonathan I. Wener
Chairman
Canderel Holdings Ltd.

Anthony L. Craig
President
Global Knowledge Network Inc.

Dr. Peter van Cuylenburg
President
Specialty Storage Products Group
Quantum Corporation

Members of Board Committees

Audit

Hubert T. Lacroix
Chairman

Donald W. Paterson
Paul G. Vien
Jonathan I. Wener

Nominating

Dr. Henry Simon
Chairman

Hubert T. Lacroix
Dr. John B. Millard

Compensation

Jonathan I. Wener
Chairman

Anthony L. Craig
Dr. John B. Millard
Donald W. Paterson
Dr. Henry Simon

Sitting (left to right): Dr. Henry Simon, Dr. John B. Millard. Standing (left to right): Jonathan I. Wener, Paul G. Vien, Peter van Cuylenburg, Donald W. Paterson, Hubert T. Lacroix, Anthony L. Craig.

Corporate Governance

Mitel believes that it is in substantial compliance with the guidelines on improved corporate governance issued by the Toronto and Montreal stock exchanges in 1995.

Shareholders will find a detailed description of corporate governance in the Company's Management Proxy Circular.

President and Chief Executive Officer

Dr. John B. Millard †

Vice Presidents

Kenneth B. Anderson
Vice President
Information Systems and
Client Server Telecom Products

Terrell (Terry) Atwood
Vice President

Paul A.N. Butcher
Vice President
Business Communications Systems
Europe, Middle East & Africa

Jean-Jacques Carrier †
Vice President of Finance &
Chief Financial Officer

Carl W. Carruthers
Vice President
Product Supply and
North American Distribution Sales

François Cordeau
Vice President
Semiconductor
Manufacturing Operations

Ronald A. Evans
Vice President
Strategic Business Development

Kirk K. Mandy †
Vice President
Business Communications Systems
and Semiconductors

Donald G. McIntyre †
Vice President
Human Resources
General Counsel & Secretary

Shirley J. Mears †
Vice President
Treasurer

Geoffrey A. Smith †
Vice President
Product Development

† *Officers of the Corporation*

Members of Executive Management Committee

Dr. John B. Millard

Jean-Jacques Carrier

Kirk K. Mandy

Donald G. McIntyre

Annual Meeting

The Annual Meeting of Shareholders will be held at 10:30 a.m., Thursday, July 24th, 1997 in the Corporation's head office facility located at 350 Legget Drive, Kanata, Ontario, Canada.

Annual Report on Form 10-K Shareholder Inquiries

Shareholders and other individuals requesting information about Mitel or wishing to receive, free of charge, copies of the Annual and Quarterly Reports, including the Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission and Canadian Regulatory Authorities, should call or write to:

Investor Relations
Mitel Corporation
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Kanata, Ontario
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(613) 592-2122
http://www.mitel.com

Rapport annuel en français

On peut se procurer la version française du rapport annuel 1997 auprès du service des relations publiques et des relations avec les investisseurs.

Transfer Agents and Registrars

Montreal Trust Company of Canada
Toronto, Ontario

Auditors

Ernst & Young
Ottawa, Ontario

Legal Counsel

McCarthy Tétrault
Montréal, Québec
Ottawa, Ontario

Rubin Baum Levin Constant & Friedman
New York, New York

Stock Exchange Listings

The Toronto Stock Exchange
The Montreal Exchange
New York Stock Exchange
The Stock Exchange, London

Common Stock Symbol — MLT
Preferred Stock Symbol — MLT.PR.A
(TSE and ME only)

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Mitel Telecommunications Systems Inc.
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Charlotte, North Carolina
Clifton, New Jersey
Dallas, Texas
Dayton, Ohio
Eagan, Minnesota
East Syracuse, New York
Encino, California
Ft. Lauderdale, Florida
Houston, Texas
Irvine, California
Kimberly, Wisconsin
Lyndhurst, New Jersey
Long Island, New York
Marietta, Georgia
Mt. Laurel, New Jersey
Milwaukee, Wisconsin
Naperville, Illinois
New York, New York
\+ Ogdensburg, New York
Orlando, Florida
Plymouth, Michigan
Raleigh, North Carolina
Richmond, Virginia
Rochester, New York
Sacramento, California
San Diego, California
San Ramon, California
Tampa, Florida
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Filderstadt, Germany
Järfälla, Sweden
Kasuga City, Japan
Plano, Texas, U.S.A.
Mt. Dora, Florida, U.S.A.
\+ Portskewett, Wales
Sao Paulo, Brazil
San Diego, California, U.S.A.
Singapore
Tokyo, Japan

\+ *manufacturing location*

Web site: http://www.mitel.com

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